S. HRG. 114–28

TESTIMONY OF THE MILITARY COMPENSATION AND RETIREMENT MODERNIZATION COMMISSION

HEARINGS

BEFORE THE

COMMITTEE ON ARMED SERVICES

UNITED STATES SENATE

AND

BEFORE THE

SUBCOMMITTEE ON PERSONNEL

OF THE

COMMITTEE ON ARMED SERVICES

UNITED STATES SENATE

ONE HUNDRED FOURTEENTH CONGRESS

FIRST SESSION

FEBRUARY 3, 11, 25, 2015

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THE FINDINGS OF THE MILITARY COMPENSATION AND RETIREMENT MODERNIZATION COMMISSION

TUESDAY, FEBRUARY 3, 2015

U.S. SENATE,
COMMITTEE ON ARMED SERVICES,
Washington, DC.

The committee met, pursuant to notice, at 9:33 a.m. in room SD–G50, Dirksen Senate Office Building, Senator John McCain (chairman) presiding.

Committee members present: Senators McCain, Inhofe, Sessions, Wicker, Ayotte, Fischer, Cotton, Rounds, Ernst, Tillis, Sullivan, Lee, Graham, Reed, McCaskill, Manchin, Gillibrand, Donnelly, Hirono, Kaine, King, and Heinrich.

OPENING STATEMENT OF SENATOR JOHN MCCAIN, CHAIRMAN

Chairman MCCAIN. Good morning. The committee meets this morning to receive testimony from the commissioners of the Military Compensation and Retirement Modernization Commission.

I want to thank each commissioner for your diligence and hard work over many months to develop the recommendations you will present to us today. Our witnesses today are the commission chairman, the Honorable Alphonso Maldon, Jr., the Honorable Larry Pressler, the Honorable Stephen Buyer, the Honorable Dov Zakheim, Mr. Michael Higgins, General Peter Chiarelli—and I understand that Senator Bob Kerrey is snowed in, in New York—and the Honorable Christopher Carney.

This year, a signature issue for this committee will be thoughtful consideration of the commission's recommendations to modernize military compensation and retirement benefits. As we do, I encourage the members of this committee and my colleagues in the House and the Senate to keep an open mind.

We are also eager to hear from any military or other organizations that have constructive ideas to improve the current system. No one has a monopoly on good ideas, and we all come to this debate as patriots who love our Nation's Armed Forces and want to improve the quality of life for all who serve and their families.

We honor the service and sacrifices of servicemembers and their families, Active Duty, Guard, and Reserve. We pledge to keep their well-being foremost in our thoughts as we deliberate the commission's recommendations.

But upholding our sacred obligation to them does not mean resisting change at every turn. We must not shrink from the oppor-

tunity before us to create a modern system of compensation and retirement benefits that would provide greater value and choice for those it serves.

Congress established the commission in the National Defense Authorization Act for the Fiscal Year 2013 to conduct a review of the military compensation and retirement systems, and to make recommendations for modernization. We asked the commission to develop recommendations that would, one, ensure the long-term viability of the All-Volunteer Force during all levels of conflict and economic conditions; two, improve the quality of life for servicemembers and their families to ensure successful recruitment, retention, and careers for those members; and three, modernize and achieve fiscal sustainability for the compensation and retirement systems in the 21st century.

The military's current compensation and retirement systems are decades old and in their current form may be less than suitable for modern-day military members. Today, we have a nearly 70-year-old military retirement system and TRICARE, the military's health program, was implemented in the mid-1990s.

Both the retirement system and TRICARE were appropriate for their time, but clearly, times have changed. We are here today to learn how the commission's recommendations could make compensation and benefits better for the military members and families of our current forces and forces of the future.

Moreover, in a world of multiple threats and increasing danger, we count on young Americans to enlist or commit to serve in an All-Volunteer Force that protects us and our families. As this committee evaluates the commission's recommendations to modernize military compensation and benefits, we must carefully consider how any changes in compensation and benefits will motivate young people of today to serve in the 21st century.

In a constrained fiscal environment, we must consider how best to achieve the proper balance between providing attractive compensation and benefits for our troops and paying for military modernization and readiness, effective equipment, and advanced training that will enable our military to respond in moments of crisis and keep our citizens safe.

We can meet both of these objectives, and we must. Clearly, we will not have enough time today for a complete and thorough review of every recommendation the commission has made. That is why I've asked Senator Graham, chairman of our Personnel Subcommittee, to hold a series of hearings in the near future to explore all of the commission's recommendations in greater depth, especially in those areas of retirement and health care.

I thank Senator Graham and Senator Gillibrand for their leadership on these critically important issues.

Finally, we look forward to the testimony from the commission today. Their recommendations come to us unanimously after nearly 2 years of hard work, research, and debate. I encourage the commissioners to speak freely without reservations. Some of them I know and I'm sure will do that.

Thank you again, commissioners, for your extraordinary efforts.

Senator Reed?

Oh, Senator Kerrey arrived.

Thank you, Senator Kerrey, for arriving. [Laughter.]

STATEMENT OF SENATOR JACK REED

Senator REED. Thank you, Mr. Chairman. Let me join you in welcoming the witnesses and commending them for a job well done. Thank you very, very much.

I think it is extremely important to have this hearing today for the reasons the chairman outlined, and I thank him for holding the hearing.

This hearing comes as the Department of Defense (DOD) yesterday formally submitted its budget for fiscal year 2016. While we await the full details of the department's proposals, there are a few immediate notable aspects of the request.

First, the requested top line is some $35 billion above the Budget Control Act of 2011 spending caps for defense. The spending cap, which for fiscal year 2016 was $499.8 billion, represents no growth in real terms. That the department has requested $35 billion more than current law allows shows how deep the funding shortfalls run, particularly with respect to force structure and the training and the modernization accounts.

Second, the department has again requested measures to slow the growth of personnel costs. The department submitted these proposals last year. Congress supported some and elected to defer others until after this commission reported its recommendations. Many members on both sides of the aisle have been reluctant to support compensation and benefit reforms requested by the department in the past several years while this commission deliberated and suggested that we should wait until this report is submitted.

This is the context in which today we hear from this very distinguished panel. These issues are of paramount importance to the Nation and to the military members and their families. We charge the military with fighting and winning the Nation's wars. Implicit in that responsibility is recruiting and retaining the very best in Military Service in sufficient quantities and ensuring that they are trained and equipped for their mission, prepared for the arduous duty we ask of them.

Usually when we talk about caring for our men and women in uniform, the discussion is focused entirely on their pay. But these other elements are equally important if we want our servicemembers to accomplish the mission and come home alive.

It is important to state from the outset that the goal of the commission is not to save money. It is to strengthen the All-Volunteer Force. It is to modernize a retirement system that is 70 years old. Importantly, it is to ensure that servicemembers and their families enjoy a quality of life and a quality of service that will enable the Services to recruit and retain the very best men and women for military service needed to meet national defense objectives.

Under the current budget situation, I fear we are quickly pricing ourselves out of having a military sufficiently sized and adequately trained to meet the myriad tasks and threats we face all over the world. As we heard last week from the Service Chiefs, the budget caps currently in law do not allow the Services to meet their national defense objectives.

Now if these recommendations that you are making are enacted and they do provide savings, such savings should be used to address force structure shortfalls and to reinvest in readiness and modernization.

Finally, I would like to highlight one inequity in the current system that the commission has pointed out. Only 17 percent of all servicemembers will leave with any retirement benefit under the current system, with officers more than twice as likely to leave with these benefits than enlisted personnel, even while enlisted personnel have always, including in the most recent conflicts, sustained the vast majority of casualties.

We are told now that under these recommendations as many as 75 percent of all servicemembers will leave the Services with some retirement benefit, even if they do not serve the full 20 years on Active Duty, as most servicemembers do not.

Thank you, Mr. Chairman, and thank you to our panelists for this important work.

Chairman MCCAIN. Again, I would like to thank all of the members of the panel, all of whom have other responsibilities and work that needs to be done, and they took their valuable time and effort to bring what I think is an excellent, comprehensive report, which I know will serve as guidance for us as we move forward with much needed reforms. I thank all of you again.

Mr. Chairman, we are ready to listen to your statement. Thank you, again, for your chairmanship.

STATEMENT OF HON. ALPHONSO MALDON, JR., CHAIRMAN, MILITARY COMPENSATION AND RETIREMENT MODERNIZATION COMMISSION; ACCOMPANIED BY COMMISSIONERS HON. LARRY L. PRESSLER, HON. STEPHEN E. BUYER, HON. DOV S. ZAKHEIM, MICHAEL R. HIGGINS, GEN PETER W. CHIARELLI, USA (RET.), HON. J. ROBERT KERREY, AND HON. CHRISTOPHER P. CARNEY

Mr. MALDON. Thank you, Mr. Chairman.

Chairman McCain, Ranking Member Reed, distinguished members of the committee, my fellow commissioners and I are honored to be here today. We thank you for the opportunity to testify. We also thank you for your support of the commission during the last 18 months and for your leadership in protecting our servicemembers' compensation and benefits.

Mr. Chairman, I would like to request that our final report be entered into the record.

Chairman McCain. Without objection.

[The Final Report of the Military Compensation and Retirement Modernization Commission, dated January 29, 2015, follows:]

See Appendix A at the end of this hearing record.

Mr. MALDON. The All-Volunteer Force is without peer. Their unwavering commitment to excellence in the service of our Nation has never been clearer than during the last 13 years of war.

As commissioners, we recognize our obligation to craft a valued compensation system that is both relevant to contemporary servicemembers and able to operate in a modern and efficient manner. We are unanimous in our belief that the recommendations we

offer in our report strengthen the foundation of the All-Volunteer Force, ensure our national security, and truly honor those who served and their families who support them now and into the future.

Our report is, of course, informed by our own lifelong experience with military service, public policy, and as public servants. However, our recommendations are most informed by insights of servicemembers, veterans, retirees, and families.

The commission and staff visited 55 military installations worldwide, listened to the views and preferences of hundreds along the way. More than 150,000 current and retired servicemembers provided thoughtful responses to the commission's survey, and we developed working relationships with more than 30 military and veterans service organizations.

Additionally, the commission received input from more than 20 Federal agencies, several DOD working groups, numerous research institutions, private firms, and not-for-profit organizations.

The result of this process that included 18 months of comprehensive, independent research, review, and analysis, are 15 unanimous recommendations that will improve choice, access, quality, and value within the compensation system. Our work represents the most comprehensive review of military compensation and benefits since the inception of the All-Volunteer Force.

Consistent with our congressional mandate, we reviewed each program to determine if and how modernization might ensure the long-term viability of the All-Volunteer Force, enable the quality of life for servicemembers and their families, and achieve a greater fiscal sustainability for compensation and retirement systems. Our recommendations do this and more, improving choice, access, quality, and value within the compensation system.

Our retirement recommendations propose a blended plan that extends retirement benefits from 17 percent to 75 percent of the force, as Ranking Member Reed has already stated. It leverages the retention power of traditional military retirement to maintain the current force profiles, protects the asset of servicemembers who retire at 20 years of service, and reduces annual Federal outlays by $4.7 billion.

Our health benefits recommendations improve access, choice, and value of health care for Active Duty family members, Reserve component members, and retirees while reducing outlays by $3.2 billion.

Our recommendations on commissaries maintain patrons' grocery discount while also reducing the cost of delivering that benefit by more than $500 million annually.

While these savings to the taxpayer are significant, the commission did not engage in a cost-cutting drill. In fact, our recommendations to improve joint readiness, servicemember financial literacy, support for exceptional families, and transition assistance require additional funding to ensure program efficacy.

In summary, our recommendations represent a holistic package of reforms that modernize the structure of compensation programs rather than adjust the level of benefits delivered to the servicemembers. They sustain the All-Volunteer Force by maintaining or increasing the overall value of the compensation and benefits for

servicemembers and their families, and they provide additional options for Service personnel managers to design and manage a balanced force.

This approach creates an effective and efficient compensation and benefits system that after full implementation saves taxpayers more than $12 billion annually, while sustaining the overall value of compensation and benefits for those who serve and have served, and the families who support them.

My fellow commissioners and I thank you again for the opportunity to testify today, and we are honored to present our unanimous recommendations. Mr. Chairman, we stand ready to answer your questions.

[The prepared statement of the Military Compensation and Retirement Modernization Commission follows:]

PREPARED STATEMENT BY THE MILITARY COMPENSATION AND RETIREMENT MODERNIZATION COMMISSION

Chairman McCain, Ranking Member Reed, distinguished members of the committee: We are honored to be here and thank you for the opportunity to testify today. We also want to thank you for your support of the Commission during the last 18 months, and your leadership in protecting servicemembers' compensation and benefits.

Our All-Volunteer Force is without peer. This fact has been proven during the last 42 years and decisively reinforced during the last 13 years of war. It is our obligation to ensure the Services have the proper resources to support our servicemembers. Those resources include a valued compensation system that is relevant to contemporary servicemembers and that is operated in a modern and efficient manner. We are unanimous in our belief that our recommendations strengthen the foundation of the All-Volunteer Force and ensure our national security, now and into the future.

Our recommendations sustain the All-Volunteer Force by maintaining or increasing the overall value of the compensation and benefit system for servicemembers and their families. They also provide additional options for Service personnel managers to design and manage a balanced force. Our recommendations represent a holistic package of reforms that modernize the structure of compensation programs, rather than adjust the level of benefits delivered to servicemembers. This approach creates an effective and efficient compensation and benefit system that saves the Government, after full implementation, more than $12 billion annually, while sustaining the overall value of compensation and benefits of those who serve, those who have served, and the families that support them.

Our work represents the most holistic and comprehensive review of military compensation and benefits since the inception of the All-Volunteer Force. Our Interim Report, published in June 2014, documents the relevant laws, regulations, and policies; associated appropriated Federal funding; and historical and contextual backgrounds of more than 350 compensation programs. Consistent with our congressional mandate, programs were reviewed to determine if modernization would ensure the long-term viability of the All-Volunteer Force, enable the quality of life for members of the Armed Forces and the other Uniformed Services, and achieve fiscal sustainability for compensation and retirement systems.

Based on the results of this review, our Final Report offers 15 unanimous recommendations that improve choice, access, quality, and value within the compensation system. Our retirement recommendation proposes a blended plan that extends retirement benefits from 17 percent to 75 percent of the force, leverages the retention power of traditional military retirement to maintain the Services' current force profiles, protects the assets of servicemembers who retire at 20 years of service, and reduces annual Federal outlays by $4.7 billion. Our health benefit recommendation improves access, choice, and value of health care for Active-Duty family members, Reserve component members, and retirees, while reducing outlays by $3.2 billion. Our recommendation on commissaries maintains patrons' grocery discounts and reduces the costs of delivering that benefit by more than $500 million annually. Yet we did not engage in a cost-cutting drill. Our recommendations to improve joint readiness, servicemembers' financial literacy, support for exceptional families, and transition assistance require additional funding to ensure program efficacy. Our rec-

ommendations also give the Services greater flexibility to recruit and retain a balanced force.

Our report is informed by our life-long experiences, but more importantly by the insights of a broad range of servicemembers, veterans, retirees, and their families. More than 150,000 current and retired servicemembers responded to the Commission's survey. The Commission visited 55 military installations, affording us the opportunity to discuss compensation issues with servicemembers worldwide. We developed an ongoing working relationship with more than 30 Military and Veteran Service Organizations. We also received input from more than 20 Federal agencies; several Department of Defense (DOD) working groups; and numerous research institutions, private firms, and not-for-profit organizations. Our recommendations align compensation and benefit programs to the preferences of the modern Force and societal shifts since the inception of the All-Volunteer Force.

Taken as a whole, our recommendations create a modern and innovative compensation system that will be relevant to the contemporary and future workforce. By maintaining or improving benefits, while concurrently reducing costs, our recommendations address the ongoing tension between maintaining servicemember benefits and reducing personnel budgets to meet the demands of the new fiscally constrained environment. We are confident that our recommendations to reform the compensation system protect the quality of life for servicemembers and their families and ensure the fiscal sustainability of these programs for the future.

We thank you again for the opportunity to testify today and are honored to present our unanimous recommendations that have one thing in common: These recommendations were formulated with the benefit to the servicemembers, and the families who support them, as the top priority.

PAY AND RETIREMENT RECOMMENDATIONS

1. Help more servicemembers save for retirement earlier in their careers, leverage the retention power of traditional Uniformed Services retirement, and give the Services greater flexibility to retain quality people in demanding career fields by implementing a modernized retirement system.

The current military retirement system for the Active component (AC) is a defined benefit retirement system that vests at 20 years of service. Annuity payments are generally calculated by multiplying a member's retired pay base by 2.5 percent for each year of service completed. Reserve component (RC) servicemembers may request retired pay after 20 years of "creditable service" as defined in law. Under the current military retirement system, 83 percent of enlisted personnel and 51 percent of officers receive no retirement savings for their service.

The Commission's recommended retirement system would maintain retirement pay for current servicemembers and retirees and set out a blended retirement plan for servicemembers entering the force. The blended plan would preserve the 20-year retirement with a reduced defined benefit multiplier of 2.0, create a defined contribution plan through a Thrift Savings Plan, and add continuation pay at 12 years of service to provide mid-career retention incentives. The recommended plan would provide additional options to servicemembers by authorizing them to choose full or partial lump-sum payments in lieu of their working-age defined benefit payments. The proposed plan would allow the Services to maintain their current force profiles. It would provide retirement benefits to potentially more than 1 million servicemembers who, under the current system, would leave Service without any Government-sponsored retirement savings, yet it would maintain the value of the retirement system for servicemembers who serve 20 years or more. A blended retirement system would also provide flexibility to the Services to obtain the appropriate mix of skill and experience needed to maintain a balanced force.

2. Provide more options for servicemembers to protect their pay for their survivors by offering new Survivor Benefit Plan coverage without Dependency and Indemnity Compensation offset.

The current Survivor Benefit Plan (SBP) gives retiring servicemembers the option to provide a lifetime monthly annuity to qualified survivors. Servicemember premiums cover approximately two-thirds of the full cost of SBP coverage, and DOD subsidizes the remaining amount. Eighty percent of servicemembers who retired in 2013 enrolled in SBP. Survivors of retirees, entitled to Dependency and Indemnity Compensation (DIC) payments from the Department of Veterans Affairs (VA), are restricted by law from receiving the full amounts of both SBP and DIC benefits (SBP benefits are offset by the amount of DIC received). The Commission found the DIC offset of SBP very unpopular with servicemembers.

The Commission recommends maintaining the existing SBP program for servicemembers who want to select subsidized coverage and remain subject to the

SBP–DIC offset, yet also granting servicemembers the option of choosing modernized SBP coverage that balances greater participation cost with no DIC offset. Survivors of servicemembers who elect the new SBP coverage would derive a greater overall benefit by receiving full SBP and DIC payments.

3. Promote servicemembers' financial literacy by implementing a more robust financial and health benefit training program.

The Services currently implement personal financial management training for their members according to their internal policies. Nevertheless, military personnel regularly make minimum payments, pay late fees, or pay over-the-limit charges on credit cards, and commonly borrow from nonbank financial institutions (e.g., pawn shops). Servicemembers who get in financial trouble often lose their security clearance, which is costly to both the individual and the DOD. These facts demonstrate insufficient knowledge among some servicemembers with regard to managing their personal finances. The Commission concluded that existing financial literacy programs do not adequately educate servicemembers and their families on financial matters.

The Commission's recommendations, particularly with regard to retirement and health care, would provide increased choice and require educated financial analysis on the part of servicemembers. The Commission recommends that DOD increase the frequency and strengthen the content of its financial literacy training. Servicemembers should receive financial training throughout their careers, including mandatory health benefits seminars when they register one or more dependents, and when they are nearing retirement from the military. Implementing a comprehensive training program would help educate servicemembers, provide them with enhanced tools to better protect their finances, and develop a culture of personal financial responsibility.

4. Increase efficiency within the Reserve component by consolidating 30 Reserve component duty statuses into 6 broader statuses.

Although Active component members have a single duty status—Active Duty—Reserve component (RC) members serve under a variety of duty statuses. In the current system, each time the purpose or the source of appropriation for an RC member's orders changes, existing orders must be cancelled, and new orders must be issued. The current RC status system aligns poorly to current training and mission support requirements, complicates effective budgeting, and causes members to experience disruptions in pay and benefits as they transition among different duty statuses.

The Commission recommends replacing the 30 current RC duty statuses with six broader statuses. Simplifying RC statuses would support both operational and training missions, better enable the purpose of RC duties to be tracked to justify budgets requests, and facilitate a seamless process for RC members.

HEALTH BENEFIT RECOMMENDATIONS

5. Ensure servicemembers receive the best possible combat casualty care

The Military Health System (MHS) relies heavily on military treatment facilities (MTF) as training platforms to maintain the clinical skills of the military medical force. Military medical personnel assigned to MTFs deliver health care primarily to active-duty servicemembers and their families, then, as space is available, to military retirees and other eligible beneficiaries. Because most MTFs do not have sufficient case mix and volume to adequately prepare military medical personnel for deployment into an operational environment, each Service has created separate trauma training programs to provide medical personnel additional training prior to deployment. There is, however, no consistency or standardization in the organization or requirement for this just-in-time trauma training. Continuing with this method for training medical personnel does little to preserve critical skills acquired over the last 13 years of war.

Congress should establish a four-star command to oversee all joint readiness, especially medical readiness. The proposed central oversight would ensure a necessary high-level joint focus overall and, more specifically, enhance the MHS as a training platform for identified Essential Medical Capabilities required by the medical force in support of deployed operations. Increased oversight would afford the medical force greater opportunities for continued training, creating a more ready force both in peacetime and in preparation for contingency operations.

6. Increase access, choice, and value of health care for active-duty family members, Reserve component members, and retirees

The DOD's TRICARE program provides health care benefits for Active and Reserve component servicemembers, retirees, their dependents, survivors and some

former spouses at MTFs or through a network of civilian health care providers. The Commission found that TRICARE's payment schedule limits available doctors. It limits choice to only a small number of plans with a one-size-fits-all approach to covered benefits and determinations of medical necessity. The current benefit lacks flexibility in its program design and contracting process, which hinders adoption of advances in the health care sector. TRICARE also restricts access to care with a frustrating appointment and referral process. Beneficiaries prefer greater choice in their health care benefit options. Providing a wide range of different health plan options at different costs incentivizes cost-conscious consumer decision-making in health care.

The Commission recommends that AC families, RC members, and retirees would receive a better health care benefit by allowing them to choose from a selection of commercial insurance plans offered through a DOD health benefit program administered by the Office of Personnel Management. This program, which we call "TRICARE Choice," would increase beneficiaries' choice, enhance their access to care, and deliver a better value. Under an insurance model, the ease and timeliness of patients' access to health care would improve because beneficiaries would not be subject to DOD's lengthy and frustrating process for making appointments and obtaining referrals. The network of health care providers would be improved, especially in rural areas and areas without a substantial military presence. A broader network of providers would particularly assist RC members and retirees, who often live away from major active-duty installations. Active-duty servicemembers, for reasons related to operational readiness, would continue to receive their health care through their units or the direct care system MTFs.

7. Improve support for servicemembers' dependents with special needs by aligning services offered under the Extended Care Health Option to those of state Medicaid waiver programs

Servicemembers with exceptional family members (EFM) require specialized supplies and services that are not provided through TRICARE. State Medicaid waiver programs can satisfy these needs, but the frequency with which military families are moved between States, combined with the long waiting lists in most States, result in military families not having access to this support. The Extended Care Health Option (ECHO) is a DOD alternative, used when State services are unavailable. As it is currently implemented, ECHO does not provide coverage equal to state Medicaid waiver programs. As a result, many military families with EFMs do not have access to the same level of support as their civilian counterparts.

Aligning services offered under ECHO with those of state Medicaid waiver programs would enhance coverage for exceptional family members to ensure consistency with civilian programs. This change would improve continuity of support for EFMs as servicemembers and their families are relocated to support the DOD mission.

8. Improve collaboration between Departments of Defense and Veterans Affairs

The Joint Executive Committee (JEC) coordinates numerous health care activities between DOD and VA, including efforts in regards to electronic health records, drug formularies, resource sharing, and interagency billing. Yet there remain substantial opportunities for enterprise-wide collaboration through standardization, elimination of barriers, and adoption of best practices. The Commission found numerous, ongoing weaknesses exist in joint collaboration and cost-effectiveness between the health care services of DOD and VA.

The Commission recommends that the JEC should be granted additional authorities and responsibilities to standardize and enforce collaboration between DOD and VA, to include: defining and monitoring expenditures for common services that are regularly jointly conducted throughout DOD and VA health-care systems; approving in advance any new capital assets acquisition, or sustainment, restoration, and modernization of capital assets, of either DOD or VA medical components; overseeing electronic health record compliance with the Office of the National Coordinator for Health Information Technology standards across both DOD and VA; ensuring that the DOD and VA establish a health care record within the VA electronic health record system for all current military servicemembers; creating a uniform formulary to include all the drugs identified as critical for transition by the JEC beginning immediately with pain and psychiatric classes of drugs; and establishing a standard reimbursement methodology [process] for DOD and VA provision of services to each other. These actions should substantially ease the transition of servicemembers and improve collaboration between the Departments.

9. Protect both access to and savings at DOD commissaries and exchanges by consolidating these activities into a single defense resale organization.

DOD operates a system of commissaries and three separate systems of exchanges. These four systems, and their associated organizations, provide discounted groceries, merchandise, and other services to servicemembers and their families around the world, in locations convenient to those living on or near military installations. They also facilitate or provide services at sea and in theater. In surveys and testimony, many servicemembers have identified this benefit as relevant and valuable and some have indicated that the discounts are critical to their personal financial health. However, financial pressures within DOD have resulted in proposals to significantly reduce the funding appropriated to operate these organizations, primarily focused on commissaries.

Consolidating commissary and exchange activities into a single Defense Resale Activity would maintain or improve the benefit, while making changes in structure, law, and policy that would enable more aggressive reductions in appropriated funding. Despite their differences, these retail organizations perform similar missions, for similar patrons, with similar staff, using similar processes. A consolidated resale organization, with combined resources, increased operational flexibility, and better alignment of incentives and policies, would improve the viability and stability of these systems. Multiple DOD-sponsored studies have identified strategies to improve cost-efficiency. Organizational boundaries, different cultures and business strategies, competing incentives, and restrictive policies have inhibited the aggressive pursuit of many of these strategies. Creating a consolidated organization would reduce these barriers and better position commissaries and exchanges to meet the needs of the Military Services and servicemembers. The proposed plan would also maintain grocery subsidies at DOD commissaries, while improving the efficiency of the benefit delivery.

10. Improve access to child care on military installations by ensuring DOD has the information and budgeting tools to provide child care within 90 days of need.

Military child care is widely acclaimed for its quality, affordability, and ability to satisfy the unique needs of military parents, but is frequently a source of frustration because of its limited availability. Current models for planning and resourcing full-time military child care often result in long waiting times, particularly for children who are 3 years old and younger, the ages for which care tends to be most expensive and least available from other sources. Although DOD has established a goal to provide military child care within 90 days of need, that goal is not yet being met, and in some cases waiting times are not being reliably measured or reported.

Ensuring DOD has the information and budgeting tools to provide child care within 90 days of need would both improve DOD's understanding of the effect of the unmet demand for military child care and enhance DOD's ability to provide a timely response to that demand. DOD should standardize reporting and monitoring of child care wait times across all types of military child care to better understand the need for services. To quickly respond to the need, the Commissioners recommend reestablishing the authority to use operating funds for minor construction projects up to $15 million for expanding or modifying child development program facilities serving children up to 12 years of age. Recognizing that staffing, rather than facilities, is often the limiting factor, DOD should also streamline child care personnel policies to help ensure proper staffing levels.

11. Safeguard education benefits for servicemembers by reducing redundancy and ensuring the fiscal sustainability of education programs.

DOD and the VA provide many programs that deliver educational benefits to servicemembers and veterans. Current education assistance programs include the Post-9/11 GI Bill, the Montgomery GI Bill Active Duty, the Montgomery GI Bill Selected Reserve, the Reserve Education Assistance Program, and Tuition Assistance. There are duplicative and inefficient education benefits that should be streamlined to improve the sustainability of the overall education benefits program.

Montgomery GI Bill Active Duty should be sunset on October 1, 2015. Reserve Education Assistance Program (REAP) should be sunset, restricting any further enrollment and allowing those currently pursuing an education program with REAP to complete their studies. Already enrolled servicemembers who elect to switch to the Post-9/11 GI Bill should receive a full or partial refund of the $1,200 that was paid to buy in to the MGIB–AD. Eligibility requirements for transferring Post-9/11 GI Bill benefits should be increased to 10 years of service, plus an additional commitment of 2 years of service. The housing stipend for dependents should be sunset

on July 1, 2017. Eligibility for unemployment compensation should be eliminated for anyone receiving housing stipend benefits under the Post-9/11 GI Bill. When providing feedback in comments to the Commission, Servicemembers repeatedly emphasized the importance of education benefits as recruiting and retention tools. Ensuring the robustness of education programs is one of the best ways to guarantee the future of the All-Volunteer Force. This recommendation would also support GI Bill benefits, including transferability, while improving their fiscal sustainability.

12. Better prepare servicemembers for transition to civilian life by expanding education and granting states more flexibility to administer the Jobs for Veterans State Grants Program

DOD, in partnership with the Department of Labor (DOL), the VA, and the Small Business Administration, maintains the Transition GPS program to help servicemembers and their families prepare for a successful transition to civilian life. Transition GPS services are delivered through a series of workshops administered by each Service. The DOL administers One-Stop Career Centers which offer employment services for job seekers across the country, including veterans after they have transitioned to civilian life. These facilities are part of state workforce agencies or employment commissions and are partially funded through a number of grants under DOL's Jobs for Veterans State Grants program. Despite these services, transitioning from military service to civilian life is more difficult than it needs to be. DOD should require mandatory participation in the Transition GPS education track for servicemembers planning to attend school after separation or those who have transferred their Post-9/11 GI Bill benefits. The Department of Labor should permit state departments of labor to work directly with State VA offices to coordinate administration of the Jobs for Veterans State Grants program. Furthermore, One-Stop Career Center employees should attend Transition GPS classes to develop personal connections with transitioning veterans. A review of the core curriculum for Transition GPS should be required to reevaluate whether the current curriculum accurately addresses the needs of transitioning servicemembers, and DOD, VA, and DOL should be required to produce a one-time joint report regarding the challenges employers face when seeking to hire veterans.

13. Ensure servicemembers receive financial assistance to cover nutritional needs by providing them cost effective supplemental benefits.

The Department of Agriculture's Supplemental Nutrition Assistance Program (SNAP), better known as the "food stamps" program, and the Family Subsistence Supplemental Allowance (FSSA), the Military Services' alternative to SNAP, have the same congressional mandate and overarching goal of providing nutritional assistance to eligible beneficiaries. In many circumstances, however, it is easier to qualify for SNAP than it is to qualify for FSSA. SNAP benefits are typically more generous, and unlike FSSA, SNAP recipients have no obligation to inform their chain of command, thus avoiding perceived embarrassment or stigma. Estimates of servicemembers receiving SNAP vary widely because States are not required to collect or share data on servicemembers. DOD needs a better understanding of the number of Service families using SNAP and the financial situations of those families.

Although FSSA should be retained for servicemembers in overseas locations where SNAP assistance is unavailable, it should be sunset in the states and territories that provide SNAP benefits. The SNAP program should capture and share information on active-duty servicemembers receiving benefits to better inform military compensation and policy decisions. Adopting this recommendation would ensure servicemembers receive optimal supplemental nutritional assistance.

14. Expand Space-Available travel to more dependents of servicemembers by allowing travel by dependents of servicemembers deployed for 30 days or more.

The Secretary of Defense is authorized to provide air travel for servicemembers, certain retirees, and their family members on a space-available basis. Space-Available travel regulations provide eligible passengers access to seats on military air transport flights that would otherwise be empty. Unused seats on DOD-owned or controlled aircraft are only made available to Space-A travelers once space-required (duty) passengers and cargo have been accommodated. Current DOD policy permits unaccompanied dependents to use Space-A travel, but only when their sponsor is serving a deployment of at least 120 days. In recent years, frequent deployments have been a reality for many servicemembers and many were shorter than 120 days, making dependents of these deployed servicemembers ineligible for Space-A travel.

DOD should allow unaccompanied dependents of servicemembers deployed for 30 days or more to use Space-A travel. The quality of life of servicemembers' depend-

ents should be improved by providing this access to unaccompanied travel on military aircraft.

15. Measure how the challenges of military life affect children's school work by implementing a national military dependent student identifier.

Children of active-duty servicemembers are not identified separately in nationwide reporting of student performance. Most elementary and secondary school student registration data systems do not include an indicator of students who have a military affiliation. These children experience unique stresses associated with parental deployments and frequent relocations that can adversely affect academic performance. As a result, national reports on student performance cannot reliably differentiate military dependent students from all others.

A military dependent student identifier should be implemented so that Elementary and Secondary Education Act reporting can identify students who are children of active-duty servicemembers. This information would enhance support for military dependent students by facilitating DOD's ability to monitor academic performance.

Thank you again for the opportunity to testify regarding our recommendations. We also want to thank all who contributed to our final report. The Commission is grateful to have been given the opportunity to make recommendations to strengthen the best All-Volunteer Force in the world. Ensuring our servicemembers, veterans, retirees, and their families' get the support they need is a responsibility the Commission took very seriously. Thank you to all those who serve, those who have served, and the families that support them.

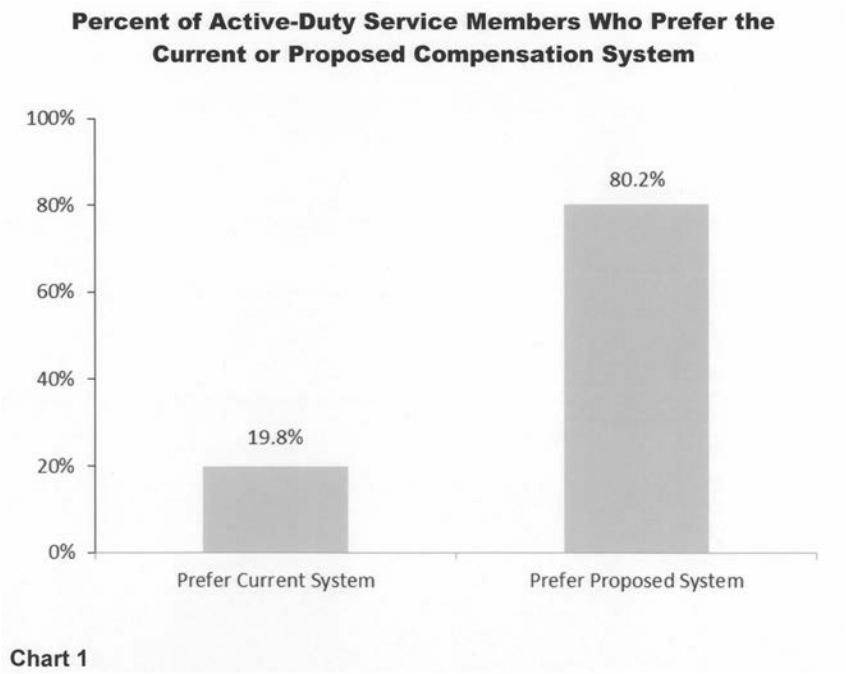


Chart 1

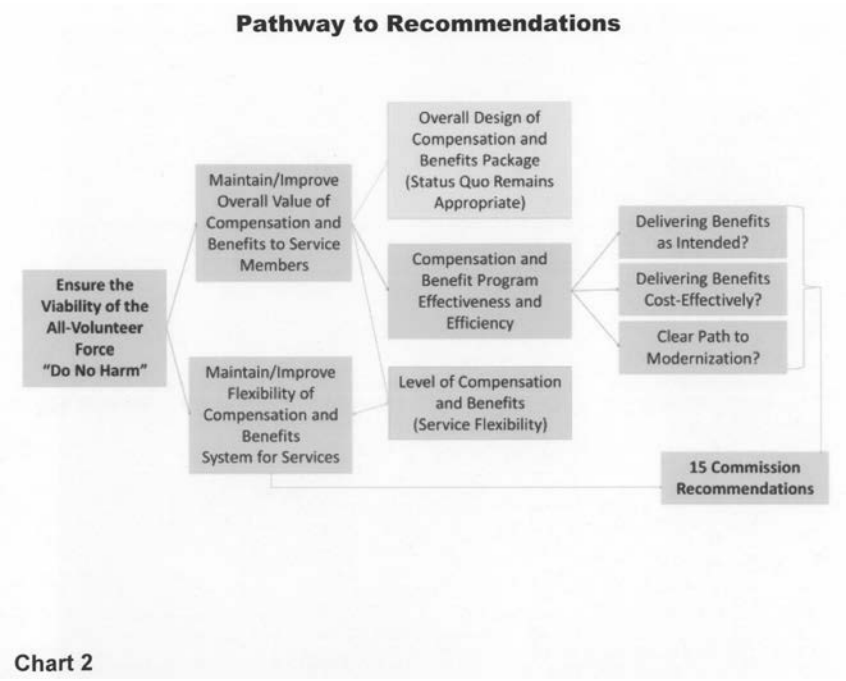


Chart 2

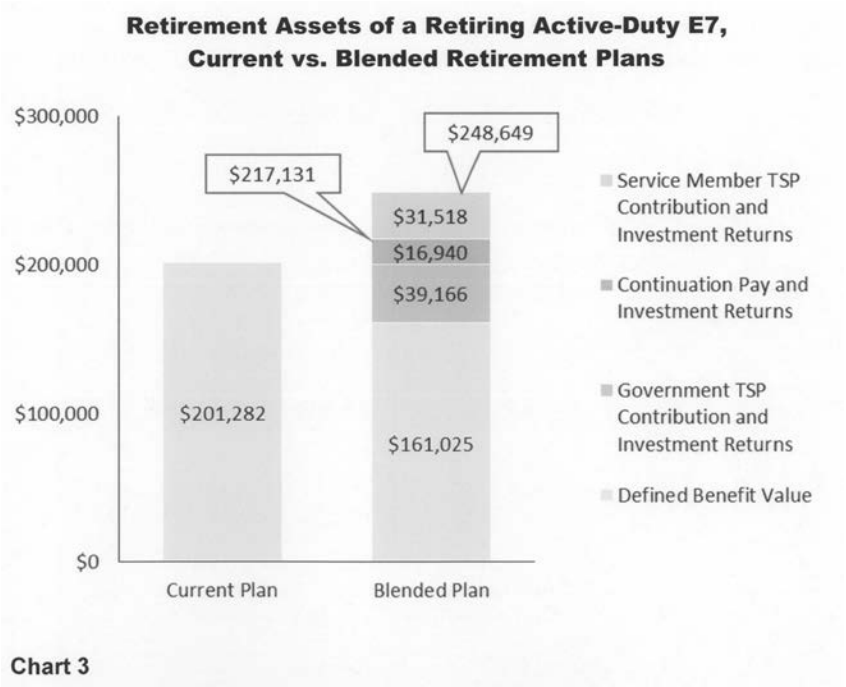


Chart 3

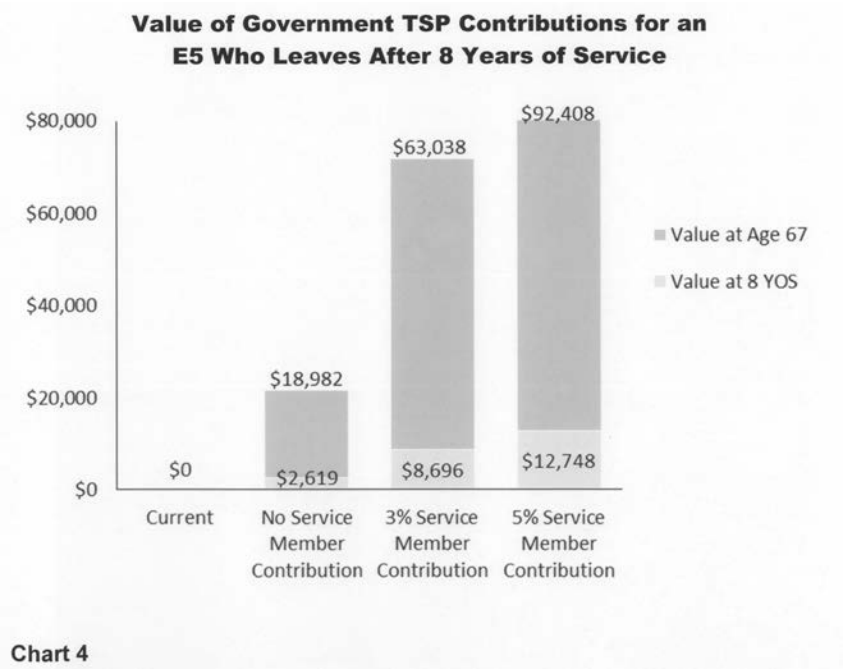


Chart 4

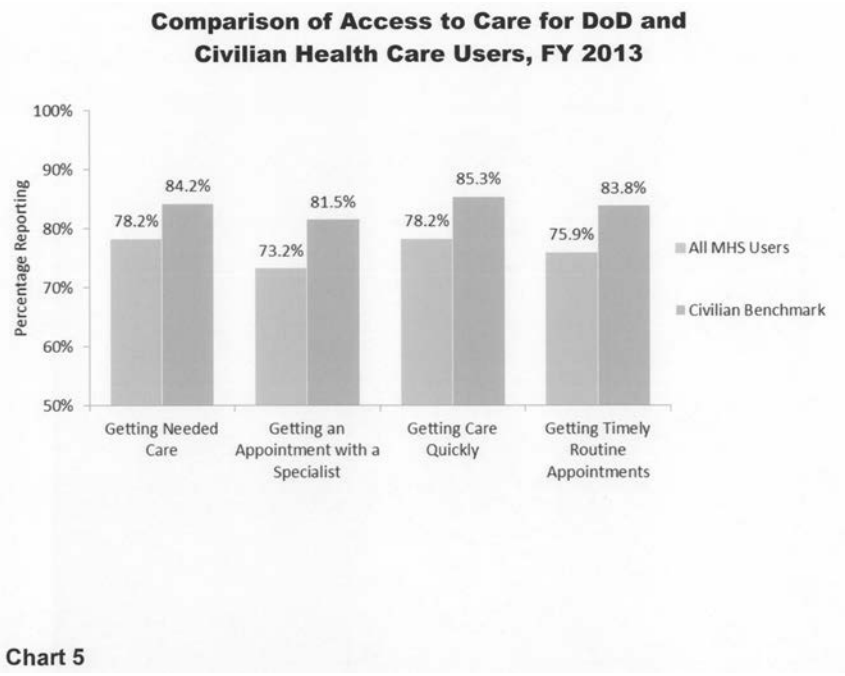
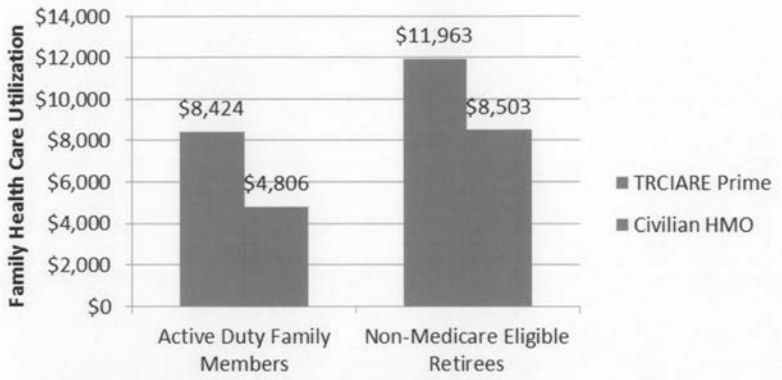


Chart 5

Health Care Utilization in TRICARE Prime versus Civilian HMO Counterparts



Source: Evaluation of the TRICARE Program: Access, Cost, and Quality, Fiscal Year 2014 Report to Congress.

Chart 6

Illustrative Calculation of Basic Allowance for Health Care

How BAHC is Computed (Annual Amount)	
Total Current Year Premium of Median Plan Selected in Prior Year	$8,507
28% of Total Plan Premium Becomes BAHC Amount	$2,382
Average Copayment Amount Added to BAHC	$920
Total BAHC Amount (sum of premium and copayment amount)	$3,302

Chart 7

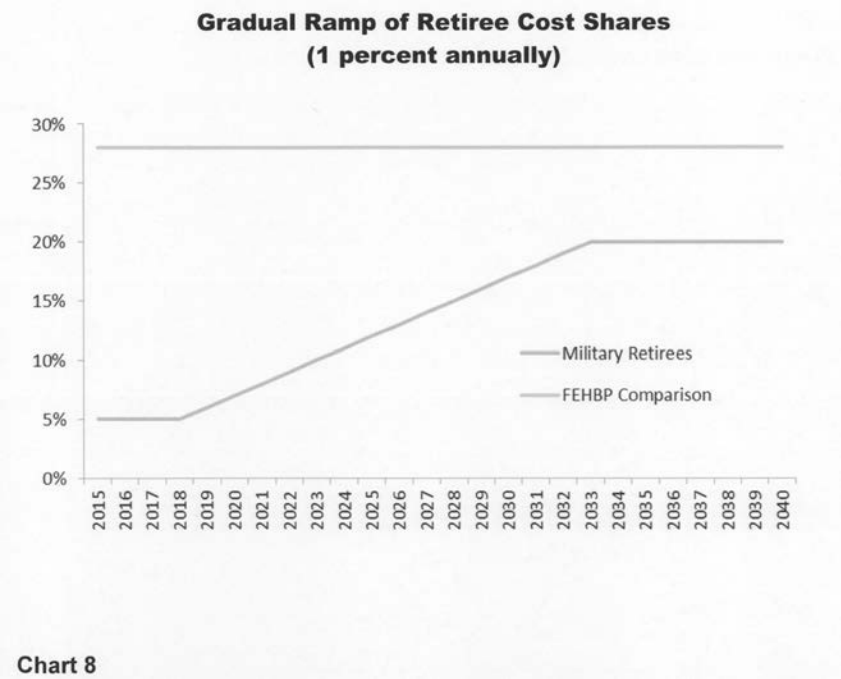


Chart 8

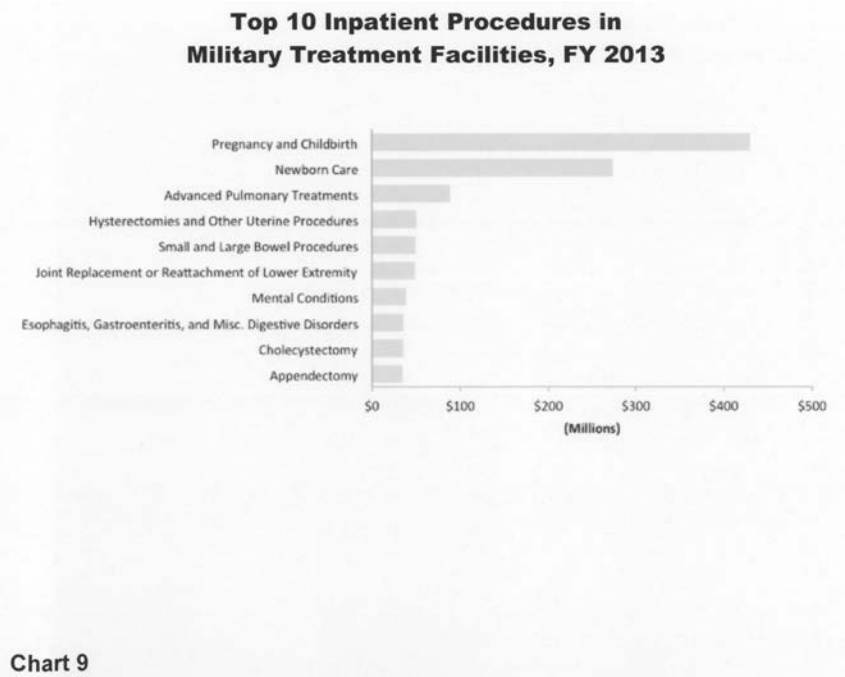


Chart 9

Components of Essential Medical Capabilities

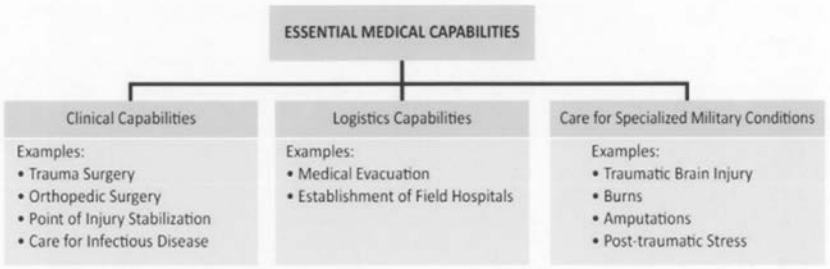


Chart 10

Retirement Assets of a Retiring Active-Duty O5, Current vs. Blended Retirement Plans

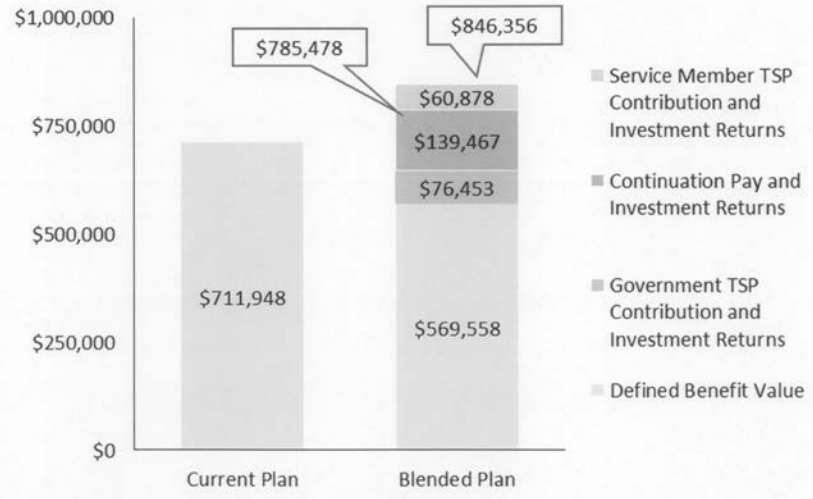


Chart 11

Funding Implications of Commission Recommendations

$ Millions	2016	2017	2018	2019	2020	2053	2054	2055
Implementation	348	218	111	120	89	-	-	-
DoD Budget	(4,789)	(4,895)	(7,113)	(7,367)	(7,608)	(8,677)	(8,677)	(8,677)
VA Budget	120	(2,126)	(4,667)	(4,478)	(4,542)	(4,757)	(4,757)	(4,757)
USDA Budget	-	1	1	1	1	1	1	1
Federal Outlays	961	(160)	(3,850)	(3,858)	(4,100)	(12,609)	(12,609)	(12,609)
Federal Outlays (Then-Year $)	961	(175)	(4,073)	(4,199)	(4,553)	(37,564)	(38,748)	(39,972)

Chart 12

Active-Duty Service Members' Importance Ratings: Health Care Experiences

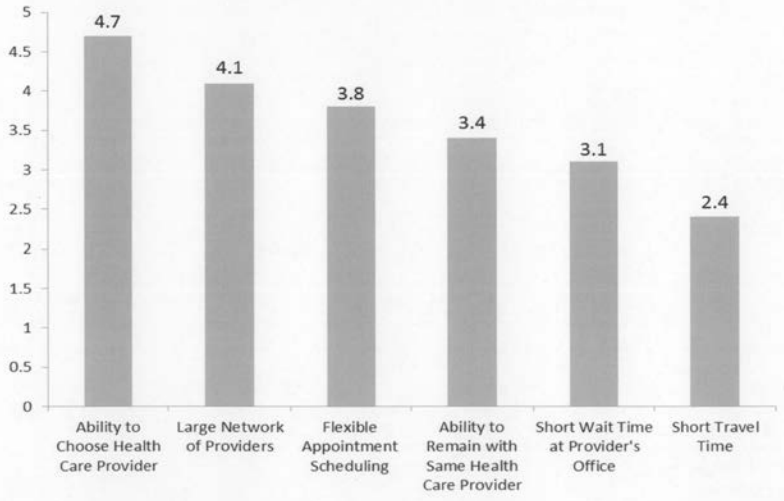


Chart 13

Chairman MCCAIN. Thank you very much, Mr. Chairman. If it is okay, I'll just have a couple of brief questions, because I was briefed by you already. If any of the members of the committee wish to respond to any questions by me or other members, just signify and you'll be recognized.

Just two brief questions, Mr. Chairman. How do you know that your recommendations will provide the same force structure to the Services, on the issue of the proposed compensation system? In other words, right now, there is an incentive to remain for 20 years. In this present plan, there will be retirement compensation literally throughout. So do we have incentive for people to remain in for a career or disincentive?

Mr. MALDON. We do, indeed, Mr. Chairman. In our recommendations, we did a blended plan here. We already have a defined benefit, and we added a defined contribution to this to make sure that we can do the retention or provide for the retention that the Services told us that they wanted us to.

I am going to have Commissioner Higgins talk to the specifics of that recommendation, Mr. Chairman.

Chairman MCCAIN. Thank you.

Mr. MALDON. Commissioner Higgins?

Mr. HIGGINS. Thank you very much, Mr. Chairman, and Chairman McCain.

Sir, the system we have devised includes the incentives, the flexibility, and the choice that people want in force, so we feel, at its essence, it's going to be a very powerful retention tool. When we look forward at how the system will operate over time, our belief is, and supported by our analysis, and in this case, it was the RAND Corporation model, which was the dynamic retention model used, we believe that our proposal will exactly model the current force profiles. It will have the tools within it, including continuation pay, Thrift Savings Plan, which is with matching, which is currently not offered today. It will include the tools that will draw people through the 20-year career, much like the defined benefit does today, and to some large extent, because the defined benefit is retained under our proposal, about 80 percent of that defined benefit.

So these new tools to meet the demands of choice flexibility, along with the defined benefit that is retained, we believe will operate very effectively. The modeling that we have done will support that.

Chairman MCCAIN. Thank you. On the issue of health care, how does this incentivize beneficiaries to seek the most cost-effective means of getting health care?

Mr. MALDON. Mr. Chairman, thank you for the question. That was very important to us as we took a look at the programs that are providing the benefits to our servicemembers.

As we traveled across the country and we talked to families, servicemembers, Reserve component members, retirees, after listening very, very carefully to the conversations and discussions that we had in terms of what people said they wanted, they preferred as values choice, access, and value of health care. Those were the themes that just kept coming time and time again.

I'm going to ask Commissioner Buyer to speak specifically to that question.

Mr. BUYER. Thank you, Mr. Chairman and members of the committee. Cost-effective means, I look at it from two ways. One is to the government. The other is to the families.

When we looked at this, it was at how we can achieve both. Presently under TRICARE, we don't, because there really aren't sufficient utilization management tools. It is a very limited network because of the very low reimbursement rates and how the TRICARE contractors actually recruit providers into the networks and pay below Medicare rates.

So with regard to the families, we said, "can we do better, not only for the government with regard to the cost but also with regard to the families and improve the quality of care, give them the choice that they want and get better access?" We found that if we move to a system whereby we have what we call TRICARE Choice, which is very similar to a Federal Employee Health Benefit (FEHB) model whereby they select from available plans in a particular geographic region. It does call for more empowerment of the individual. We are asking that that individual is able to select a plan that best fits their family. When we do that, the plans themselves that are then managed and administered by the Office of Personnel Management (OPM), those plans will have effective management unitization tools, and it becomes more cost-effective not only to the families but, in particular, to the government, Mr. Chairman.

Chairman MCCAIN. Thank you.

Senator Reed?

Senator REED. Thank you very much, Mr. Chairman.

Let me direct this question to General Chiarelli, and anyone else who would like to respond.

Part of your recommendation with respect to health care is also strengthening the military treatment facilities (MTF), the traditional facilities that have to be ready to deploy, if we deploy. Part of it, as I understand the proposal, is that they would be part of these health care systems.

Can you comment from your perspective as former vice chief on this whole issue of strengthening the military medical infrastructure along with giving individuals more choices in the health care? Or if someone else wants to.

General CHIARELLI. No, I'm more than happy to.

Senator REED. Yes, sir.

General CHIARELLI. I think we are in a death spiral right now in our MTF, from the standpoint of they just don't have the number of reps that they need to keep their doctors up to standard. This is a way that we can bring into our MTFs the kind of cases that contribute to battlefield medicine.

That is what makes this system so different than any other system. We need well-trained doctors, not only to treat patients in hospitals, but to be ready to deploy wherever we send them and provide that same kind of treatment on day one of the conflict.

This will allow us to attract into our MTFs the kind of cases that will keep those skills up, and are so absolutely crucial to our survive-of-wounds rate in the last 14 years of war.

It will do that on day one of the next conflict. I really believe that this is something that is going to ensure that we have that combat medical readiness capability we need moving into the future. If we don't do it, we are going to have a very, very difficult time being able to provide that.

Senator REED. So this is not just about the benefits to the individual military personnel. This is about the overall viability of the health care system in the military?

General CHIARELLI. Absolutely, and that is one of the reasons why we looked so strongly at a readiness command, because we really believe there is going to have to be somebody who is keeping an eye on this system to ensure that the Services are doing the kinds of things that are necessary to keep those MTFs viable training grounds for our physicians.

Senator REED. Let me direct this to the chairman. You can decide who is appropriate.

I'm sure I'm not alone, but when we mobilize National Guardsmen and Guardswomen and reservists, they are the ones who sometimes have the most difficultly getting into the health care plan, getting their benefits, making sure that their family who is not close to a medical facility, who may be far removed. It seems to me that this approach that you are suggesting, choosing among a set of private insurance plans, would be much more easily accessed by Reserve components. Is that accurate, Mr. Chairman?

Mr. MALDON. That is correct, Senator Reed. One of the things that happens with our proposal for the Reserve components is, anytime they are mobilizing or being activated, the family members normally will go without coverage. There is a period of time that they just don't have coverage when that happens. This will solve that problem for them because they won't have to worry about going long periods of time without coverage of health care when the Reserve component member activates and deactivates.

Mr. BUYER. Senator Reed, I mean, that is an excellent question. That strategic reserve that we built over time really wasn't prepared operationally. We know that. You funded it. You did a lot of things to bring it up, round it out, and make the total force better in the 13 years of war. But with regard to the undesirable choices that reservists and their families had to make upon those mobilizations to be part of those contingency operations, you are absolutely right, Senator.

So when we looked at this and said, with regard to that total force, even though we really pressured the chiefs, do we really want an operational reserve versus a strategic reserve? They really do, but they don't want to call it that because they don't want to fund it.

But what is realistic is, when we talk about the war after next or how to fund the war after next, and caring for the people, when it comes to the health care, that benefit needs to be for the total force. So for the Reserve components, that continuity of care that your questioning goes to, it is so disruptive for the family.

If we say from day one when you join the Reserve component that health care is part of that benefit, you can select the type of plan that best fits your family, your premium is 25 percent. We

capped it at 25 percent for the premium. Then there is no disruption in the continuity. They like their local providers.

Then if they are on for a longer period of time, they've come, gone on Active Duty, they are part of the contingency operation, then they go on to the Active Duty plan, they receive their basic allowance for health care that takes care of the premium for that of their family.

Senator REED. Thank you very much, Mr. Chairman.

Mr. MALDON. Senator Reed, if you don't mind, I would like to have another member of our commission speak to that as a reservist, please, Commissioner Carney.

Mr. CARNEY. Thank you, Mr. Chairman.

Mr. Reed, those of us who lived in sort of rural areas and were on Reserve duty, it wasn't TRICARE exactly. It was more like "try to find care." This takes care of that.

What we are offering now is a system that provides a network that is robust enough to care not only for the member when they are on their civilian side, but also for the families when the member is deployed. That is exactly what we are trying to do here and do it in a way that is fiscally sustainable.

Medical readiness as well as dental readiness are critical aspects of the overall readiness mission. If we can do that with this kind of system, with a TRICARE Choice system, then I think this is a good step forward.

Senator REED. Thank you very much.

Thank you, Mr. Chairman.

Chairman MCCAIN. Senator Inhofe?

Senator INHOFE. Thank you, Mr. Chairman.

I would say to my good friend Steve Buyer, who I used to sit next to on the House Armed Services Committee, that I agree with you, except I'm more concerned about today's war than I am the war after next. Right now is when we are having the problems that we are having.

We had a hearing last week. We had Schlesinger, George Schultz, Madeleine Albright. They went back and reminisced about what our capabilities were at that time, and what is expected, and even read the charge that President Reagan had made at one time in determining what a defense budget should be.

The reason I'm saying this is I look and I agree with Senator Reed who talked about the inadequacy in meeting the threats. I agree with Director Clapper when he says, "Looking back over my now more than half a century in intelligence, I have not experienced a time when we have been beset by more crises and threats around the globe" than we are right now. That in light of the fact that we also have the force structure problems.

I'm very proud of all of our chiefs. General Odierno has been before us, and all of the rest of them, talking about how significant this is and it is something that is unprecedented.

The reason I bring this up, we have a quality group here, I would say, Mr. Chairman. I just think after this is over, you should reconvene and get into this thing as to the current threat that is out there and the inadequacy that we are facing. It is one thing for the chiefs to come forward and talk about what is going to happen with sequestration. But when you folks with your backgrounds come

forth, to me that gives a different sense of meaning. I would hope that we might consider that.

I was a product of the draft and look at things a little bit differently than others. In fact, I was one that was not at all optimistic that the All-Volunteer Force would be the quality force that it is. I was wrong, although there were some advantages to the draft at that time.

I think that when you are examining the charge that were given to you, and I would ask you the question, what have you decided motivates the young people to serve in the All-Volunteer Force? Then, why are so many of them leaving, if you could zero in on two or three reasons as to why they don't stay on?

Quite often, we go back and talk about how much cheaper it is for us to retain than to retrain. The extreme example is to get a pilot to the point where they can do an F–22 quality and the reenlistment bonus is $250,000 but the cost to retrain is $17 million. Now scale that down to whatever forces that we have here.

What is the major reason that they come in and then they leave?

Mr. MALDON. Thank you for the question, Senator Inhofe.

We spent a lot of time looking at that, that specific issue that you address. It is a very important one. As we think about how to modernize the compensation programs, compensation programs for tomorrow, we are thinking about exactly what is required for the military to be able to recruit and retain people. We have to think about the way the new generation think, what they value, what they prefer. Those are the kind of things that we listened to and heard as we talked to people.

As it was already indicated here today, 83 percent of the enlisted force actually wind up leaving without any kind of retirement benefits, which is one of the reasons that we made the recommendation that we did, to be able to extend some of the retirement benefits for those servicemembers who will serve and then move on to do other things from 17 percent to 75 percent.

I'd also like to point out that a couple of things that we were told specifically by the servicemembers is that they are concerned about the service to their country and the G.I. Bill. Those were two of the things that were very important to them in terms of why they would come in, what they were looking for. Get an education benefit, be able to take advantage of that, which is a strong recruiting tool, and then move on to something else.

Senator INHOFE. Very good. Thank you, Mr. Chairman.

Chairman MCCAIN. Senator Manchin?

Senator MANCHIN. Thank you, Mr. Chairman. Thank you all for being here.

I guess this would be to anybody who wants to answer the question. But my thing is, is that it is a very difficult position you are being put into and we all are, because I don't think anyone questions the commitment the Service people and all people in military have to the United States of America.

I know in West Virginia we feel very strongly about that, people willing to take a bullet. I have always been able to explain when I was Governor, when they would explain or complain about whether it be our state police retirement or our fireman's retirement, they are willing to put their life on the line every day for you.

So people are willing to pay a higher price for that but they still want it to be fairly comparable. Do you all look at that from the standpoint—I can tell you, in most all State budgets or municipality budgets, the firemen and police pensions are out of whack, they are under water, and we are trying to get them back. There is going to have to be some sacrifices. But to the point, we have to recognize the sacrifice they are making for us.

How do you balance this out? What would I tell the National Guardsmen of my State that have been deployed maybe three and four times, and we are looking at changing some of the compensation? What type of literacy training are we giving to help them on their retirement? Why do we have so many that leave at 10 years of service in the military to go into private contracting for the extra pay overseas in Afghanistan and Iraq? What is the magic number of 10 years? I find most of our soldiers of fortune that leave our military that we spent an awful lot of time and energy training them, leaving and going for the higher pay. Can you give me that magic thing at 10 years what they lock in and what gives them that freedom to do that? Whoever wants to chime in on this.

Mr. MALDON. Yes, Senator. Senator, thank you very much for that question. We, certainly, have spent a lot of time talking about that. I am going to ask Commissioner Kerrey, Bob Kerrey, to share the specifics of that.

Senator KERREY. Well, first of all, I think you would be having a difficult time retraining men and women to serve in the military had this Congress not made all of the changes that it made since we have been fighting this war for the last 14 years. I mean, if you just look at what you've done with pay and compensation, it is now better than market. It needs to be.

The changes that have been enacted by Republicans and Democrats have not been given enough praise, in my view, because had those changes not been done, given the stress on families today—I'm a very proud geezer father. I have a 13-year-old. If we think about having to move our son once every 4 or 5 years, it is a traumatic thing inside of our household. That is way more stability than anybody in the military gets.

So the stress on the families has increased over the past 14 years. Thanks to congressional action, the pay and benefits now are quite strong, and they need to be in my opinion. Otherwise, we are going to have a difficult time retaining men and women.

The second thing that has happened, and the Senator and fellow draftee referenced the good old days, the American people now are quite proud of their military. They are quite confident that they are getting the kind of support that they need. But Americans are a lot more patriotic and they care deeply about the men and women who are serving.

I think that attitude makes a big difference to people's willingness to serve. I would say the combination of patriotism and the combination of pay and benefits, those two things together have made a big difference.

When I looked at the recommendations, Senator, that we are making, the two big questions that I ask are, are we keeping faith with the men and women who have served? Those of you who have

understand that what happens is that you give up your freedom. If you get ordered to do something or go some place, you do it.

So are we keeping faith with those who have served and are serving? I answer emphatically yes.

Second, the recommendations that we make, will it enable us to continue to recruit and retain in the All-Volunteer Force. Again, I answer emphatically yes.

But it is something that you constantly have to pay attention to. I think there is a qualitative difference between the public pensions at the fire and police level. Those firemen can get a little ornery, and the police can get a little ornery. They don't have a Commander in Chief that tells them exactly what to do. I get orders to report to so and so location, I say yes, sir, and go.

Whereas in negotiation with the fire union and the police union, you have serious negotiations about where they're going to go and what they're going to do.

So I think there is a qualitative difference between the relationship of the American people and the men and women who have signed up and sworn that oath, given up their freedoms, and even in training exercises, put their lives and health at risk.

Senator MANCHIN. Well, it's not a hard sell. Basically, in my State and most States around the country are very committed to our military force, and they want to make sure they are compensated and taken care of and given the care they need. They just want to make sure we are doing it in an efficient manner, and if we are giving them the training and expertise and literacy training they need to make decisions.

Senator KERREY. I would say, Senator, I think the moment that ends, no matter what you pay men and women, they are not going to sign up. The moment that that attitude changes, as it was in the 1970s, it is going to be difficult to recruit people to Service.

Senator PRESSLER. We have a tradition on our Indian reservations. A lot of people serve 3 or 4 years and very rarely go for a career. I always had a difficult time getting our Native Americans to go to the Military Academies. But it seems that, aside from whatever we do, there is a tradition in our country of a lot of people wanting to serve 3 to 5 years. Of course, we need those people. That is particularly true in rural areas in States such as mine and with Native Americans.

Senator MANCHIN. Thank you, Mr. Chairman.

Chairman MCCAIN. Senator Fischer?

Senator FISCHER. Thank you, Senator McCain.

Mr. Chairman, you've mentioned flexibility a couple of times here in your statements. In the report, it says that the force may benefit from a flexible retirement system that incentivizes them to remain in Service longer than other occupational specialties with regard to doctors, cyber-personnel.

Do you have specific proposals? I would like to dig down a little bit into this. Do you have any specific proposals that the commission recommended? Do you see each Service setting a different requirement there? If so, do you anticipate any problems? Do you see competition among the Services?

Mr. MALDON. Thank you very much, Senator, for the question. I am going to ask Commissioner Zakheim to respond to the specifics of your question first.

Mr. ZAKHEIM. Thank you, Mr. Chairman.

Senator, each of the Services already has different types of bonuses to keep people on. For instance, nuclear engineers and specialists get special bonuses from the Navy and so on.

Our proposal does not tell the Services how they should do it. What we are trying to do here is give them maximum flexibility, so that if there are, as you pointed out, certain specialties that, frankly, like doctors, you actually get better with more time in your practice, then the Services upfront can decide that they want to recruit an individual and have that individual stay on longer than the normal term. But it works both ways, actually. It is not just to keep people longer. They can sign up some for less.

We wanted to give them maximum flexibility, so at the same time that we are giving the individual choice, we are giving the Services flexibility. Again, it goes back to the question about what kind of a force do you want to shape? The Services are the ones who know that best, of course.

Senator FISCHER. When you looked at the surveys, were there any issues identified that the commission did not make recommendations on? I guess I'm thinking specifically of the housing allowance. That has been a big issue in the past. The President has made proposals but yet it was not addressed by the commission. Are there other instances there? Really, why didn't you address the housing? We hear about that a lot.

Mr. MALDON. Senator, thank you so much for the question. We, indeed, took a very, very hard look at the Basic Allowance for Housing (BAH)/Basic Allowance for Substance, and we actually looked at the pay table. We looked at the structure of all of those programs.

We clearly asked ourselves three questions. Number one, were these programs delivering the benefits that they were intended to? Number two, were the benefits being delivered in the most cost-effective way possible? Third, could this commission design a clear path for modernization to those programs, in terms of improving those programs.

After looking at those, we did not feel that we could design a clear path to modernization for those programs, and instead we could provide a much better benefit to the servicemembers and do it in the most cost-effective way by making the recommendations that we have made.

Senator FISCHER. Would it be fair to say that the commission supports with what the Congress did then with the housing allowance? Or do you support the President's proposal?

Mr. MALDON. Senator, again, thank you for the question. I am going to ask Commissioner Higgins to respond to the specifics of that question

Senator FISCHER. Thank you.

Mr. HIGGINS. Thank you, Mr. Chairman, Senator.

Clearly, BAH, in our view, is operating effectively to provide the housing that our servicemembers need. There are a number of the elements of the compensation system that drew our attention very

dramatically that we did not elect to meddle in, if you will, because we believe they are operating effectively. Others would include the pay raise mechanism. The pay table itself we believe is operating correctly, special pays and allowances, and BAH, I think along with that.

Now on each, if you believe that you need to save money, then obviously the Congress could act to reduce programs. That is your choice. Our objective was modernization, and systemized modernization where we go into the structure of a program. We did not believe that the structure of those programs were deserving of modernization.

If I could go back to your other question as well, Senator, the Service Chiefs asked for flexibility. One of the primary complaints about the retirement system as it exists today is that it is overtly rigid, inflexible. Service Chiefs implored us to seek opportunities for greater flexibility. We delivered that section you are referring to.

Are there some potential frictions between the Services? Would it cause some concern? Do we believe it is going to be used instantaneously? No. There will be uncertainty, and I think that will keep that proposal in check, perhaps for years. But there will come a day when greater flexibility in the retirement system will be needed. That provision will be there to deliver that to the managers.

Senator FISCHER. It would also allow the Services then to compete for the men and women that they need to perform in different areas, correct?

Mr. HIGGINS. Always a difficult issue, controlling competition between the Services. The service cultures are, indeed, incredibly strong. You always want to endeavor to limit competition and create systems that operate for the best interest of the total force. But there will be some insecurity, and I think that will cause this, as enticing as it may be to some people inside the Pentagon. Whether or not it rises to a level where it is implemented is a serious question that is going to take time to resolve.

Senator FISCHER. Thank you, sir.

Thank you, Mr. Chairman.

Chairman MCCAIN. Senator Gillibrand?

Senator GILLIBRAND. Thank you, Mr. Chairman, for this hearing. Thank you to all of you for your very hard work.

One of the most important considerations for me in terms of potential changes to benefits and compensation is that the approach be holistic and that we ensure the lower enlisted troops and families do not disproportionately feel the impact. Can you please walk me through why you believe this is holistic and how it will impact lower enlisted troops and their families? Anyone can answer.

Mr. MALDON. Thank you, Senator, for your question. I am going to ask Commissioner Chiarelli if he would please respond to the question.

General CHIARELLI. I think we have done everything we possibly can to make it holistic and apply to everyone. We have two charts that go into the retirement. One enlisted E–7 to show what his retirement is under the current system, and what it would be under the new system. I think you can see that it is clear that he or she

would do much better under our proposed system than they would under the current system.

We have one for officers that shows the same thing.

I don't think it's just the retirement system you should look at. I think you should look at what we are doing with health care. We are giving them the ability in health care to go out and immediately go to see a private provider that is in their insurance network. Or if they would rather choose to go to the MTF because that is where they feel they can get the best care, they can go to the MTF.

Today, under most of the TRICARE programs, it takes a period of time before you can get that TRICARE referral, and it is up to 30 or 40 days from the time you want to see somebody until you can get out to see them, if you can find a provider.

This applies not only to officers and warrant officers, but it applies to our enlisted soldiers. So I think everything in our recommendations was geared to ensure that whatever we recommended was holistic and applied to both officer and noncommissioned officer in the same way.

Senator PRESSLER. In a holistic sense, we included exceptional family provisions and childcare issues in our report, which normally might not be in such a report. But a lot of the lower ranking servicemembers have a very hard time with waiting lists on childcare and so forth, so we tried to be holistic in that sense.

Mr. BUYER. Ma'am, holistic was not only of the moment. We were very reverent to the past for our military traditions and heritage.

Senator GILLIBRAND. Thank you.

Senator KERREY. If I could?

Senator GILLIBRAND. Please.

Senator KERREY. There is one area we have not talked about. First of all, you completely destroyed me, because I tried to get the chairman and the rest of the commissioners to stop using the world "holistic."

Senator GILLIBRAND. Sorry.

Senator KERREY. Obviously, I failed in that effort.

Among the things you really need to think about is all these men and women at some point are going to transition back into the civilian life. The changes we are recommending in the health care side and the changes we are making on the retirement side make it much easier to do that, because there isn't an abrupt differential between what we are recommending and what the civilian population is doing.

Senator GILLIBRAND. So to continue along that line, I'd love to understand better the health care proposal. I understand that part of the recommendation is to create a basic allowance for health care based on the average family's out-of-pocket costs to cover the cost of premiums and the co-pays. So how do you account for families with extraordinary needs? Will they pay more? I'm especially concerned about families with the special needs dependents, children with special needs specifically.

Mr. MALDON. Senator, thank you for the question. We spent an inordinate amount of time talking to families across the country about the challenges they had with exceptional family members.

I'm going to as Commissioner Buyer to speak to that, the specifics of that question.

Mr. BUYER. There are two parts to the question. I'll do the health care and then the extraordinary families piece.

To the basic allowance for health care, you are correct. In order to make that determination, it will be decided by OPM. OPM will manage the plans and they will take the average of those premiums of the plans that were selected in the prior year. They also then will look at that average to come up with the co-pays and the deductibles.

Senator GILLIBRAND. Does OPM help families navigate it, because this is a new system for them.

Mr. BUYER. Part of our recommendations with regard to literacy training, literacy is not only for financial literacy, because now, as we move into the Thrift Savings Plan and government contribution, there is a financial literacy piece. But there is also a health piece to help people navigate.

This really is calling for more empowerment of the individual. It goes to that opening question that Mr. Higgins really posed to all of us on day one, which is that we are very used to our military being paternalistic. So as we look at what is happening in society and how dynamic, I want to say the new generation is, not that they are the selfie generation. They are the generation who want to have greater controls about themselves. They watch their peers making contributions into 401(k). "How about me? I am in the military. I want to participate, too." So we have come up with that blended.

With regard to health care, we are also making that empowerment of choice in educating them about how important it is to make the best plan for themselves and their family. When we give them the financial literacy and the health literacy, when they leave the Service, it is a better individual and it is a better family.

Mr. MALDON. Senator, if you don't mind, I'd like to have Commissioner Higgins follow up on the latter part of the question. It was two pieces.

Senator GILLIBRAND. My time has expired. It is up to the chairman.

Chairman MCCAIN. That is okay. Go ahead, Mr. Higgins.

Mr. MALDON. Thank you, Mr. Chairman.

Mr. HIGGINS. Thank you, Mr. Chairman, Chairman McCain.

Senator, we had a great deal of concern about exceptional family members and how we would care for them. We have a proposal, of course, that would add a new level of benefits for those families. It was one of those areas where we would increase costs, so we were not all about cutting. We were about making life better for servicemembers.

In addition, if you had a catastrophic situation in a family where you had extreme cost that was related to an exceptional family member, there is also a fund that we would propose to ensure that those out-of-pocket costs did not get excessive. We plan on that for about 5 percent of the people. So there is help there.

Chairman MCCAIN. Senator Ayotte?

Senator AYOTTE. Thank you, Mr. Chairman.

I want to thank all of you for the hard work and thoughtfulness you put into this commission and for having this important discussion with us.

I do have to say, today, I'm walking back and forth between this committee and the Budget Committee. As I look at where we are, Senator Kerrey, to use the word "holistic" in a way that I think the point needs to be made here, is that if you look at where we are, for example, the President's budget that was just submitted, by 2021, our interests costs, what we are paying in interest, is going to exceed the Defense budget.

As I look at the work that you have done, a bipartisan commission, and we look at what the biggest drivers in our debt are overall, looking at the big budget, mandatory spending, programs that we need to have similar looks at—Medicare, Social Security, that are very, very important programs to people.

I appreciate that you have done all this work. I think we are looking at our military stepping forward first in making many changes. I think that we need to look across the entire budget too, because where we are is that we are going in 2016 to defense budget only 3.1 percent of GDP and 14.3 of Federal spending, which is the bottom of the historic range since 1950.

The reason I want to put that in perspective in the big picture for everyone, we look at the sacrifices that our men and women in uniform make—the separations from family, obviously the sacrifices they make putting their lives on the line, all of that. I think that the work you have done is really important, and we look forward to delving into it more deeply.

But I hope in the bigger Congress, as we scoot between here and the Budget Committee today, that we look at the big picture and we won't be sitting in a situation where we are going to continue to shrink the defense of a Nation because we won't take on the other hard challenges that need to be taken on for this Nation.

It would be great to see a group like you look at the bigger picture as well. I just wanted to say that, and thank all of you for your work.

In terms of a specific question, I wanted to follow up on the retention issue, because obviously that is important to all of us in terms of keeping the very best military in the world and wanting our best and brightest to join the military.

As we look at your proposals on recruitment and retention, what assumptions did the commission use regarding economic conditions in the country and operational tempo (OPTEMPO)? So meaning, what did you assume would be the rest of the private economic growth, because that always drives, obviously, what opportunities our best and brightest have? Also OPTEMPO?

Mr. MALDON. Senator, thank you very much for the question. We took quite a bit of time actually looking at that and deliberating over those issues. We actually had experts come in and talk to us about the millennials and what that means, as well as what it means with the social environment and those kind of societal changes that have taken place and how that would affect retention.

I am going to ask Commissioner Chiarelli to speak to the specifics of your question.

General CHIARELLI. I would totally agree with the chairman, Senator. We did.

A good example where we provided flexibility is at the 12-year mark with continuation pay. That is not a fixed amount someone is going to get. We were going to allow the Services to set that amount based on the economic conditions that they have at the particular time to maintain the retention rates, not only the total retention rate but the retention rates by specialties that they need to continue past that 12-year mark.

So everything we did was based around an OPTEMPO from peacetime to the fact that we would have to deploy the entire force.

If you had told me when I was in the Army Operation Center on September 11 that we would be able to maintain the All-Volunteer Force at the OPTEMPO that we did for 13 years, I would have told you there was no way whatsoever. We did.

I had aviators that literally knew that, on the 365th day of the year, they were going to be back down range. They would stay down for a year and come back and get another year at home before they were going back down range.

Why they did that? A lot of it is pure patriotism, love of country, and a mission they believed in.

I think it is absolutely critical that in times where we don't have that OPTEMPO, we give the Services the tools they need. I think you will find throughout our report we have done that, everything we can to give them that flexibility to maintain those retention rates.

I would argue, in the earlier question, as I live around Fort Lewis, WA, today, the biggest issue for retention today is uncertainty. They just don't know whether they are going to have a job tomorrow. There is real concern in the force, as you wander around that post and see folks, how far the cut is going to go. Is there a future for me here?

I think our retirement plan speaks to that and puts us in much better position, should we ever have to cut the force again to provide people who are leaving something when they leave.

Senator AYOTTE. I want to thank all of you. I have some additional questions I'll I submit for the record.

I would just say, General, to your point, that goes to the sequester issue too, in terms of continuing to diminish what we are going to spend on the overall force and our readiness, and that is issue we already had hearings on, and we need to do something about. Thank you.

Mr. MALDON. Senator, thank you. Senator, there was a modeling component to your question. I would like to take that for the record and then get back to you, too, because we do have very specific data and details for that.

Senator AYOTTE. Thank you.

Chairman MCCAIN. General Chiarelli, I wish that every member of the Senate could have heard your last comment, because we are going to be in a very significant struggle here in regard to sequestration. You reflect the views that were expressed to this committee by our four Service Chiefs last week, and I thank you for that.

Senator Donnelly?

Senator DONNELLY. Thank you, Mr. Chairman.

I want to thank all of you for your service to the country. You have all done so many extraordinary things for us.

My fellow Hoosier, Congressman Buyer, is here. Thank you for all your work, and to all of you.

I also want to say the importance of the extended care that you are providing for exceptional family members, what you have done in that area is really significant, and will change lives for family after family.

General Chiarelli, I wanted to ask you about the unified drug formulary between DOD and the Department of Veterans Affairs (VA). You have done exceptional work in trying to stop the scourge of suicide. You have worked tirelessly to provide solutions and answers here.

If you would tell us a little bit the challenge when you transfer from DOD to VA with the drug formulary and what that is causing?

General CHIARELLI. Thank you for that question, Senator. I really appreciate that.

When I was vice chief of staff in the Army, I had no idea there were two different drug formularies between DOD and VA I really believed every single soldier who used drugs the way they were supposed, who had posttraumatic stress or traumatic brain injury and was taking an off-label antidepressant that was developed 30 to 40 years ago, not for the disease that they had, that their doctor had to work through a whole bunch of the different drugs to get them to the right one, that when they showed up to their VA on day one, they would be able to provide that prescription to their doctor, and he would automatically refill it. That is not the case.

We have two different drug formularies. The DOD is very expansive, just about anything FDA has approved, they can prescribe them, and they do. When an individual finally gets on the right drug at the right dosage and goes over to the VA, many, many times in this particular area, antipsychotics and antidepressants and antipain medications, they find themselves in a situation where the doctor looks at them and says I'm sorry, I cannot refill that prescription.

You are going to hear a lot of different stories from folks, but I continue to have soldiers come to me, sailors, airmen, and marines today—just last week, I met with one for coffee who had the exact same thing happen to him.

If there is anything we can fix to get at this suicide problem, it would be to make sure that once we get a kid on the right drug and at the right dosage, wherever he goes in the system, he is able to get that same drug and not be told, "I'm sorry, that's not in our drug formulary."

Senator DONNELLY. Isn't there also a confidence factor for that person, that they feel comfortable with the drugs they are receiving, with the treatment they are on, and changing it up is like a life-changing experience?

General CHIARELLI. Most of them don't, Senator. What they do is they go find a private doc to go ahead and give them the prescription and they pay for it out-of-pocket.

So here we have told them, "We are going to take care of you. We really care for your service. This is your benefit." They go over and say, "I'm sorry, you can't have that drug."

I'm telling you, no one cares if you get St. Joseph aspirin in DOD and Bayer aspirin in VA That is not an issue. But on this drug formulary issue for antidepressants, antipsychotics, pain medications, these things you have to be weaned off of, we should not put our service men and women in this situation when they transfer over to the VA

If it is not on the drug formulary, somebody should hand them a card and say go to your local pharmacy and get the drug.

Senator DONNELLY. As the General and all of you know, we are losing 22 veterans a day to suicide. In the Active Duty, we lost 132 young men and women in combat in 2013. We lost 475 to suicide, almost four times as many. So your efforts on this are life-changing.

I would like to then follow up with a question. As we transition from DOD to VA, for a number of our young men and women, obviously, there are electronic health record challenges. What do you think is the next largest challenge we have to tackle and knock out?

Mr. MALDON. Senator Donnelly, thank you very much for the question. We spent a lot of time talking about the DOD–VA collaboration and what that really means, what effect it has on health care for veterans.

I am going to ask Commissioner Buyer to speak to the specifics of that question first.

Senator DONNELLY. Great. Thank you.

Mr. BUYER. When you look at our recommendation eight, Senator Donnelly, we are asking that the Joint Executive Committee that has authority, it doesn't have power now. That is pure heterodox. We are asking that you give it statutory power to actually implement the recommendations.

When we met with Secretary McDonald, two things we learned. One is they said they agree with the commission. But could you also—this wasn't in our recommendation and I throw this to you, because I anticipate the Secretary of the VA would say I would like to have parity, so when the Joint Executive Committee meets, the Deputy of the VA meets with the Under Secretary for Personnel. It is not the same. If you raise that so that the Deputy Secretary of the VA and the Deputy Secretary of the DOD meet at the Joint Executive Committee, and give them the authority with the power to implement, big difference.

So with regard to the blended recommendations and the exact antidepressants or antipsychotics General Chiarelli spoke of, or pain medications, let the experts make that decision with regard to where in the formulary it should be blended. With respect to large capital projects, never again should we have the scenario where we all struggle trying to get the timelines for the building of an Army hospital and a VA hospital. That shouldn't ever occur to us again.

With regard to your specific question, "What do you really anticipate, Steve, the biggie that is going to happen next?" It really is this challenge, as the country moves to set these national standards for the electronic health records. So we have the scenario

whereby you are responsive with regard to the VA and the scheduling debacle. We said that we will move to this Choice program, Senator McCain, that you talked about. We will have this increase of more non-VA care. When you are on the Committee on Veterans' Affairs in the House, around the 2004, 2005 timeframe, we were spending about $400 million for non-VA care. Today, $6 billion. It is only going up.

So think of this, DOD has a contract let to create their own new version of their electronic health record. VA is doing the evolution of VistA, and they want to make sure, as they move to their new programs, that they have data standards so they can be bidirectional.

At the same time, the VA is doing more non-VA-based care in the private sector. In order for there to be continuity of care, those private docs have to be able to communicate then with the VA So we are talking about bidirectional, so they can communicate. That is a huge challenge.

Now in DOD, as they move to their new electronic health record, and as we make recommendations to you to move toward the selection of plans, meaning there is going to be a lot of care provided in the private sector.

So this setting of national standards on how the country will communicate is extremely important. That is what I would see, Senator Donnelly, as the biggie that is about to come. It is about your leadership on setting those national standards.

Senator DONNELLY. Thank you to all of you, and thank you for your extraordinary service across-the-board.

Thank you, Mr. Chairman.

Chairman MCCAIN. Senator Sullivan?

Senator SULLIVAN. Thank you, Mr. Chairman.

I wanted to also thank the members of the commission for the great work that you have been doing for the country, now and before.

I first want to get a sense of kind of the big macro issues, the competing issues that you have seen, Mr. Chairman, as part of your mandate. In particular, what I was interested in, is there a concern about the projected growth of benefits, of retirement, that ultimately will be or could be taking away from training and readiness? I think we all want to make sure we are taking care of our troops. I think, though, sometimes what gets lost is ultimately the best way to take care of them is to make sure, if and when they need to go fight, that they come home alive.

Is that an issue that the commission has had to deal with on a broad scale? This kind of tension between competing issues that we are looking at with regard to military expenditures?

Senator KERREY. Mr. Chairman, can I take that question?

Mr. MALDON. Senator Sullivan, thank you very much for your question. I knew that Commissioner Kerrey would want to answer this question, so I'm going to ask him to respond.

Senator KERREY. Since I'm notoriously holistic in my thinking about such things.

I argued and I think commissioners were persuaded that for us to address this problem that you have identified, without address-

ing the big one—the big one is Social Security and Medicare. That is crushing all the appropriation accounts.

It would be unfair to identify military retirement as the big problem, because it isn't. The big problem is Social Security and Medicare.

So it seems to me to address military retirement without going after Social Security and Medicare is basically saying we are going to balance the budget on the back of our military retirees, and I think that would be a wrong thing to do and send a terrible signal.

Mr. ZAKHEIM. Could I jump in here?

Senator SULLIVAN. Yes, sir.

Mr. ZAKHEIM. Since I had to deal with exactly that question at DOD when I was comptroller.

First of all, there is a huge misunderstanding as to how much is being spent on military, as part of the defense budget. People think it is 50 percent. It is not. It is 29 percent. We write about that in our report.

If you add the civilians, the defense civilians, that brings it up to about 40 percent. But that is a whole other category. That is not something we focused on.

The real issue is, can you modernize what you are offering to your military at the amount of money that you are spending? If you can spend a little less and modernize a little more, so much the better.

That is where we started. We started with modernizing. We started with choice. We started with what my fellow commissioner doesn't like, holistic approaches. But that is where we began.

Then we looked how things fell out. It turned out, it fell out that you could actually save the government money as well. You could actually do better by your people and still save the government money, which tells you how inefficient the current system is.

The reason it is inefficient is not that it was deliberately so. When the All-Volunteer Force started, who was in it? Mostly young men, unmarried. Now look at what we have. A completely different kind of force.

So we have to be concerned about Extended Care Health Option (ECHO) programs. We have to be concerned about childcare. We have to be concerned about a lot of different things that just weren't paramount in 1975.

That is how we approached it. We did save some money, but that wasn't the driver, and it shouldn't be.

Mr. BUYER. Senator, I'd be very careful about getting sucked into this debate of people versus procurement.

Senator SULLIVAN. I'm not talking about just procurement. I am talking about hard training for our troops.

Mr. ZAKHEIM. Again, frankly, this is not the issue, because the amount of spending on personnel has been level.

The real problem, and I think Senator Ayotte pointed it out, and several others, is there is just not enough money going to defense, full stop. That is the issue.

Mr. BUYER. When you hear that personnel costs are unsustainable, the baseline that is used for that is year 2000. The question you should and is why was the year 2000 chosen as the baseline to prove that somehow personnel costs were

unsustainable? Congress made a lot of the conscious decisions to improve the personnel system. We did REDUX reform. We did the VA formulary reform. We changed the pay tables, and we did TRICARE for life. Then as you went into war, we did the G.I. Bill and the pay raises.

So there was a reason, a clever reason, why the year 2000 was chosen.

General CHIARELLI. I would only add, and I'm telling on myself now, my staff used to tell me to come up here 21 times, and if you go back and look at my testimony, I always quoted the fully burdened cost of a soldier.

I learned through this commission work that the cost of a soldier hasn't really gone up. It is what you hang on that soldier.

Look at an M16 rifle and what it looked like in Vietnam, and look at that same weapon system today with all the sights and bells and whistles that we are putting on it. When you look at the fully burdened cost, you are rolling in the additional costs of other things and applying that to personnel accounts, which I was totally wrong in doing that. I apologize.

Mr. ZAKHEIM. One last point, which is really important. General Chiarelli pointed out that he couldn't imagine, and neither could I when I came in in 2001, that we would be at war for 13 years and be able to keep all the people we kept. Well, if Congress and the executive branch had not done what it had done, as Congressman Buyer said, in 2000, 2001, 2002, do you think we would have kept them?

Senator PRESSLER. Let me add to that, that when this commission was created legislatively, we were very limited in the sense we had to assume an All-Volunteer Force and we would not take anything away from anybody who has it now in certain areas.

So really a lot of the commissioners might have had great, grand ideas, but we tried to stay within the confines of our legislative directives.

Senator SULLIVAN. Thank you.

Thank you, Mr. Chairman.

Chairman MCCAIN. General Chiarelli, it is very rare we get an apology from a General before this committee. I hope we will mark this as a historic moment. I thank you. [Laughter.]

Senator MCCASKILL. Mr. Chairman, I'm surprised balloons and confetti didn't drop from the sky. [Laughter.]

Chairman MCCAIN. Senator Heinrich?

Senator HEINRICH. Thank you, Mr. Chairman.

I want to thank all of you. Lord knows what a difficult charge this was. Coming from a State with incredibly high rates of volunteerism, I want to say how much I appreciate the fact that you came to these recommendations unanimously. Serving in this body right now we don't hear that word "unanimously" as often as we would like to.

But I wanted to ask you if you could elaborate a little more for everyone here and, certainly, for this panel about the process you used in terms of gathering feedback from our servicemembers, from their families, at military installations and at veterans service organizations (VSO)? That was one of the things I was concerned

about in this process, but I was quite impressed with the level of feedback as you move towards your recommendations.

Mr. MALDON. Senator Heinrich, thank you so much for the question. We spent a lot of time traveling across the country meeting at different military installations. We met with servicemembers—that is, Active Duty servicemembers, Reserve component members, as well as retirees.

We held sessions. We held town hall meetings. We held public hearings as we traveled. We would spend a lot of time trying to really listen. We listened very carefully to the comments that the servicemembers and their families shared with this commission, about things that they really were concerned about.

They talked about OPTEMPO, the challenges with that. They talked about the long waiting list of trying to get their child into a childcare center. They talked about not getting access to health care and the problems that they had with trying to get specialty care and waiting to get through the referral system. All of those kind of things are what we used.

We received tens of thousands of comments that came in to the office from across the country from servicemembers about things they were concerned about. Then we also received the many, many responses from the survey. The survey was a very, very instrumental part of this process. We sent out surveys to over 1.3 million retirees. We sent it out to our Active components and Reserves. We received over 150,000 responses back that said, "Here is what it is that is important to us. Here is what we prefer. Here is what we value."

They basically stack ordered one benefit over the other, so we have a pretty good indication of exactly what is important to them.

Senator HEINRICH. I want to thank you for that. I want to move my next question to Senator Pressler, because I really appreciated your comments about the culture of service that exists in our Native American communities. Certainly, that is one of the reasons why New Mexico has had such an enormous overall rate of volunteerism, military volunteerism, over the years.

I was wondering if you had looked at the recommendations in terms of having the sort of TSP model and a contribution portion, if you serve as an enlisted person for 4 years, very much at the beginning of your lifetime career, and you build that early nest egg through this process, what that looks like at aged 65-plus, whenever you actually retire? What impact would that have on tribal communities, as well as on rural communities, where there are very, very high rates of volunteerism?

Senator PRESSLER. We do have a problem, in the sense of the Native Americans. I just couldn't get mine to go through the Academies, but they do join the Service for 3 or 4 years. They have a very high rate of service, and they are very proud of it. You go on the reservations, and I know your State, they have American Legion veterans and Vietnam veterans groups and so forth.

The component that they would take out at least, and most of them go with no retirement, but they would have at least 1 percent the government would contribute to a TSP. After 2 years—one of my colleagues might correct me—they can contribute up to 6 percent, through the match.

But when they are elderly, they will have something, something. It depends how our stock markets work out.

But I think, in our country, we have to the depend on the citizen soldier. In my view, it isn't just to retain everybody for 20 years. It is for 3, 5, 6. In my case, I served for 3 years. I got no retirement, but my percentage counted when my Federal civil service retirement came. So I did get something. I got 2 percent a year for the time I was in the military.

Most Native Americans don't get to that, and we also have the compounded thing that most of them do not go back to careers. They go back to unemployment, and they do have all the problems that you know about it. But for them to have some connection to some small retirement benefit at the end I think would be a very good thing for us to have in our country.

Mr. MALDON. Senator, I'd like Commissioner Higgins also follow up on that question, if you don't mind, very quickly.

Senator HEINRICH. Chairman, I'm out of time. Would you be willing to indulge?

Chairman MCCAIN. Not a problem.

Senator HEINRICH. Thank you.

Mr. MALDON. Thank you, Mr. Chairman.

Senator HEINRICH. Commissioner Higgins?

Mr. HIGGINS. Thank you, Mr. Chairman.

Senator, tapping into the economic power of the United States through the Thrift Savings Plan is, indeed, a really powerful financial incentive.

We looked at your point about examining what kind of growth would be experienced when the individual arrived at retirement age, say 67. The individual who had done no personal contributions would still, if they leave at 8 years of service, would still have $18,000 available to them in the their Thrift Savings Plan.

But if they contributed and received the full matching of 5 percent of their base pay, they receive at age 67 over $90,000 in benefits that would be available to them. So it is a pretty powerful mechanism, and I think would serve any community, including Native American.

Chairman MCCAIN. Senator Rounds?

Senator ROUNDS. Thank you, Mr. Chairman.

Gentlemen, I most, certainly, echo the message from the rest of the committee up here when we talk about the work that you have done. Senator Pressler and I have been on the campaign trail together for a couple of months in the last year and we have met with a lot of members of the Native American tribes. They truly are a warrior society and we respect what they have provided to our country in terms of service to the Armed Forces.

My question to you today is that you are trying to put together a system that while it is similar or at least you want similarities for services being provided, you are trying to provide these services and benefits to a whole lot of different groups. You have the folks that are over the age of 65, those between 60 and 65, retirees who have left with 20 years of service but not yet reached retirement age. Then you are also looking at those individuals who are still there within the military. Then you are looking at those who are coming into the military.

How do you transition this from what it is today? I got a letter from a man who served over in Iraq, and he had 20 years in, came back. He says, after sequestration, the message he gets is, my retirement because I've done my 20 years but I'm not yet 60 is I get my retirement, but instead of having an inflation factor, I get inflation factor minus 1 percent.

The savings to us was $6 billion, but he says, in the middle of sequestration, the first thing people do is come back to the service men and women who have served to be the first to give back. Why are we the first in line to get cut?

Now today, I think the challenge this commission has and the challenge that this committee is going to have is to go back to a lot of those same individuals and say, look, here is $12 billion that is being reduced, or at least being reallocated. Are they doing it on our backs? Those of us who came in and thought we had a deal, knew what we had for retirement, knew what we had for health care, what is it? How are we being taken care of? Is there a transition plan that says we get a chance to choose A or B?

If you could, please, I think the work you are doing here is important to do, but I think the challenge we are going to do have is how do you convince these men that are serving or have served that they have some options available? Is there a transition plan that you have thought about for those individuals?

Mr. MALDON. Senator Rounds, thank you very much for the question. We, indeed, spent quite a bit of time talking about that very issue that you raised in your question. As we thought through all the transition assistant kind of challenges that a servicemember faces when they are transitioning out, we took all of that into consideration.

I'm going to ask Commissioner Chris Carney to talk to the specifics of that.

Mr. CARNEY. Thank you, Mr. Chairman.

Once again, with my colleague right here to my right, the holistic approach that we took to consider the retirement and to make sure that we first of all did no harm, was one of the mandates given us to. Senator Kerrey also mentioned something very important, and that is that we don't try and balance the bank on the backs of the military. We tried to not do that.

So in terms of specifics, some of the programs, and we could talk about this in further committees later on if you want to, but when we talk about ramp programs, so we don't transition automatically into something that might cost a little more to a retiree or a servicemember, that there would be build-ups over 15 years, for example.

But one of the things that we thought was vitally important in all the things we recommend is a good sense of financial literacy. So if our recommendations are adopted, there would be a very robust financial literacy component for all the troops. That starts when they are in boot camp or basic training, and at various points in their career, so they can make good financial decisions going forward.

What the Federal Government does often impacts them, and that cannot always be accounted for. Promises have been made, and

sometimes promises have been, I don't want to say broken, but perhaps bent a little bit.

But when you do the financial planning, when you enable the servicemember to have the tools at their disposal to make good financial decisions, the impact of the bending of the promise by the government may be reduced somewhat.

So I have a son who is a lance corporal in the Marine Corps. He's making a little money now and came to me on his last leave and said, "Dad, what do you know about Ford F–250s?" I said, "I don't know much, but I know you can't afford one." But a lot of kids aren't making those decisions. They are going ahead and buying that expensive vehicle, so they don't have the money necessary later on.

We want to have a robust, as I said before, financial training system so they understand the value of money, they understand the value of money later in their careers. So when they hit the 12-year mark and they are making that decision, do I want to stay in and continue on, or do I want to go out, the money is there to make a good financial decision for them.

So to try to reduce the impact of maybe a bent promise, we want to empower the servicemember with the ability to make good financial decisions to kind of reduce some of that.

General CHIARELLI. I would only add also that the specific thing you said, sir, about somebody who has served 20 and is retired, is grandfathered in the current system. They will not be part of this system.

Now, in the area of benefits that may fluctuate and change, that might affect them. Co-pays, but that is done over a period of a 15-year ramp, medical co-pays.

But that 20-year person is grandfathered in the current system, and it would not change.

Senator ROUNDS. Thank you, Mr. Chairman. I would just say I hope when we are all done with this, that the thought of bending the promises is one that we try to get away from.

Mr. CARNEY. That was, certainly, our intent, Senator. Yes.

Senator KERREY. I think you should see the recommendations too, Senator, as a continuation of what Congress has done for the last 13 years.

Our goal is to improve the quality of paying benefits for our military. That was the primary objective of the commission. We have sent a group of holistic recommendations to you that we do think accomplish that objective.

Mr. CARNEY. Senator, we really honest to God tried to keep the faith.

Mr. MALDON. Senator, let me just say that I think, in summarizing what my colleagues have said here is that, everything that we did was totally done to protect the benefits, protect the interests of the servicemembers. I wouldn't want anyone to get the impression that we are implying that we were actually cutting benefits of the servicemembers. It was quite the contrary. Even though we yield savings as a result of the approach that we took in reforming the structure of those programs, there was absolutely no interest on our part to reduce the benefits of the servicemembers, in fact,

it was to support those and improve those benefits. I'd just like to make that point.

Chairman MCCAIN. Senator Kaine?

Senator KAINE. Thank you, Mr. Chairman.

Thanks to all of you for your service. This is an incredibly important topic, a very difficult one, and maybe even a thankless one.

I have had a chance to begin to review the recommendations, and I see a lot of real positives. I think some of the focus on matters like financial literacy, the transition from veteran status to civilian life in terms of employment training and assistance, these are very far-reaching recommendations. Very much appreciate your work.

I am going to make an editorial comment that has nothing to do with any of you. You all were asked to serve on this, and you said yes, and you've done a good job.

I am not particularly a sensitive person. But when I walk in and it is a panel, and we are supposed to talk about military compensation, and there is not one woman sitting here, it's just like, wow. I mean, really?

One of the first things that happened when I got in the Senate was the order came down from then-Secretary Panetta to open up combat billets to women, to work on that.

We have so many women serving in the armed services now, and on these issues, military compensation, the role of military families and their thought about these things are critical.

I have a youngster in the Marine Corps, too. As he's talking to his guys, they are often talking about what their own families are saying to them about things commissaries, exchanges, retirement, health care, salary.

So we send a signal, and you didn't form the committee, in terms of the membership. It was probably on us or the executive. But I just have to say that it seems so obvious that if we are really trying to have a military open to women——

Senator KERREY. Strike "probably." It was you and the executive.

Senator KAINE. Okay, yes. So then I'll make it as a point obviously not critical to any of you who said yes, but it is to us. I am stunned about it. That is my editorial comment.

Mr. BUYER. Senator?

Senator KAINE. Yes?

Mr. BUYER. I would invite you to actually meet the women who serve on the staff. They are sharp,, brilliant.

Senator KAINE. I'm 100 percent certain about that, but it is no substitution for sitting at the—because we always have panels in this committee that look just like this where the folks backing up the panel members are the smart, talented, incredibly competent women. I just want to see some women at the table. That's my editorial comment.

Senator KERREY. Raise it in the caucus, Senator.

Senator KAINE. Yes.

Let me ask about collaboration opportunities. I don't think this was gotten into in significant detail when I was gone, but what are the collaboration opportunities we can harvest between the DOD health system and the VA? Looking down the road, there have to be some economies of scale on the cost side, but there also have to

be improvements in quality of care at both ends of the spectrum, if we do additional collaboration.

Did you get into that at all, or what thoughts would you have for us?

Mr. MALDON. Senator Kaine, thank you for the question. We spent a lot of time talk about the DOD–VA collaboration. It was mentioned earlier by one of my colleagues as we talked about the formulary issues, the benefit of having a uniform formulary. We talked about shared services. We talked about a need to do better standardization, have standardized policies. We have actually had conversations with the Secretary of VA about that and we talked to people at DOD about that.

I am going to ask Commissioner Buyer to talk a little bit about some of the additional specifics here as to how we respond to the challenge of that and what we did about it within our recommendations.

Commissioner Buyer?

Mr. BUYER. Thank you. Senator, earlier we talked about the real empowerment of the Joint Executive Committee. It really lies to the heart of ensuring that two departments of government work together seamlessly. So as that solder, sailor, airman, Marine transitions from their active status into the VA, they really shouldn't feel it. As soon as they come over, they should feel that medical record is there and that the doctor who has just taken other my care, that there is true continuity of that care.

That Joint Executive Committee that has authority, it doesn't have the power to implement. So they can just create a lot of paper. So we are recommending that you actually give the Joint Executive Committee, not only do we create parity between the DOD and VA who lead the committee but also give it the power to actually implement, and implement what.

So the recommendations on blending the formularies with regard to the antipsychotics, call it the mental health drugs, antidepressants, pain medications, let them set classifications of those drugs and how it should be blended. Extremely important, and General Chiarelli spoke to that earlier.

The other would be on capital projects, whether it is building military hospitals or a VA hospital in close proximity, or outpatient or super-clinics, have some resource sharing. A lot of sharing initiatives that you find when you go around, there are a lot of local agreements. It is based on personality-driven. But there are a lot of things that work and are effective from those crucibles and that the Joint Executive Committee can actually then centralize those decisions rather than that being decentralized.

With regard to the medical information, that is the I.T. issue. The Joint Executive Committee can really drive how the electronic health record is developed through its evolutionary process between the evolution of VistA and this new electronic health record that is about to come out of DOD, and how we then communicate with the civilian doctors who are providing the non-VA-based care to the VA. Then if you adopt what we are recommending, this choice of civilian plans, you have doctors out there that are providing that care. That electronic record needs to ensure that it is interoperable between your doctor back at home and that doctor from the MTF.

But guess what? When they transition then over into the VA, you want to make sure it is interoperable, too.

Senator KAINE. That is very helpful. I would say, on the collaboration side, as I conclude, my sense is, with Secretary McDonald at the VA, he is a guy who understands collaboration. So there is a collaboration moment that is coinciding with the issuance of these recommendations, and we ought do what we can to take advantages of it.

Mr. BUYER. When we met with the Secretary and the Deputy Secretary, they had already met with us previously and they also had initiated a policy paper. I haven't had to chance to talk to General Chiarelli about it, but they are asking that doctors, that that they default to the prescription that DOD doctor had written.

It is kind of nice to put it on paper. I would feel much more comfortable if it were something that the Joint Executive Committee looked at and gave it the implementation authority to ensure that if you had a prescription on Active Duty, a mental health drug, when you go to DOD, to ensure that you are going to get that drug is extremely important, because there are a lot of social ills that occur if he falls backwards.

Senator KAINE. Right. Thank you.

Senator KERREY. Can I just add something? At the beginning, Senator Kaine, the chairman invited us to speak our minds, which was dangerous in my case.

I think this collaboration idea is not going to work. I don't think you are going to get where you want to go unless you start considering actually putting these two systems together. Because of the readiness component, it has to be DOD who is going to be in charge of it.

I think you have to go further. I would give this committee both authorizing and appropriating authority so they can't basically rope-a-dope you. You have to have some pretty substantial change in order to get what you want.

This is almost the 7-year anniversary of Dana Priest's story about Walter Reed. I remember Danny Inouye calling me up because both of us had been transferred out of a military system into the VA system. What do we need to do?

So I spent a fair amount of time thinking about this. We have a good recommendation in there, and you are going to improve collaboration. But unless and until you consider putting these two systems together and changing Senate rules so this committee both authorizes and appropriates, it seems to me, unless you at least consider those two things, it is going to be very difficult to get the kind of changes that you want.

Chairman MCCAIN. Senator Tillis?

We have always agreed with that, by the way. [Laughter.]

Senator TILLIS. I want to go back to a question or follow up on a question that Senator Manchin asked about the perception and, Senator Kerrey, I think you responded to it, the perception that we are losing people because we are not competitive with the market, say at year 10.

I think you made the comment that we are at or above market. Did you to say that? Could you expand on that?

Senator KERREY. Actually, I did say it, and I cannot expand on it. It came from the analysis we did on the commission, that we are at or above where we are in the private sector.

It was congressional action that did it. I think we need to maintain that status.

Senator TILLIS. So the perception that people are leaving at year 10 based on pay or benefits may not be right? There may be other reasons they are leaving, lifestyle or other, but not pay and benefits?

Senator KERREY. I would say that it is likely you can have individual cases, particularly technical individuals. Earlier Dov was talking about one of the problems we have is a lot of these new civilian companies forming up, and they will pay for a security clearance. They are apt to bid up what the military is doing.

I think you will find exceptions to it. But I think in the aggregate, you will see that the military pay is at or exceeds what is available in the civilian world and the benefit package as well.

I'm for that. General Chiarelli talked about it earlier. I came into this commission believing that it is likely we have a real problem with pay and benefits. I don't believe we do. That is not the problem.

That problem has a lot more to do with the retirement issues, and there, as I said earlier, I think it would be grossly unfair to address military retirement without taking on the big ones, which are Social Security and Medicare.

Mr. MALDON. Senator Tillis, let me follow up, please, on that question by having Commissioner Higgins talk, because we did quite a bit of analysis and review around that. I want him to talk specifically to what our modeling told us.

Mr. HIGGINS. Thank you, Mr. Chairman.

Senator, I believe, in a general sense, retention today is probably as good as the military has ever seen it. Having said that, there are select skills that have always been historically very difficult to maintain. Some of the stories that you hear often are, let's say, nuclear-skilled individuals in the Navy are always difficult to retain, because once they acquire those skills, there are very lucrative opportunities on the outside.

In recent years, during the war years, what emerged was the 10-year departure of special operators. Those people obviously acquired significant skills during their tenure in the military that now have very high values placed on them in the private sector.

The military responded to that with a significant bonus that I think turned the tide in that community. The Navy has always struggled with additional bonuses and several of their high-demand skills. But I think as a general rule, and this may rely mostly on the economy and the unemployment rate, but as we have moved through these last few years, retention has been quite good.

Senator TILLIS. One final question for the chairman, or as directed by the chairman, the recommendations that you put forth, how have they been embraced by the stakeholder community? I have heard it said that we are providing for efficiency and value. It sounds like there winners and not a lot of losers. Are there areas out there that there are concern amongst some of the stakeholder groups?

Mr. MALDON. Mr. Chairman, I think at this point the feedback we have gotten from the VSOs, the stakeholders of that like, they are very receptive to what we have done at this point in time. It would be premature to say they are 100 percent on board with this, because they are still looking at the details of the report and our recommendations themselves, and they have to do their analysis as well.

I think DOD is doing the same kind of thing, although I think the general feedback at this point from DOD and members of the joint staff is that they totally understand the merits of our report, what we are recommending, how those recommendations support fiscal sustainability of the compensation programs, and the fact that we have been able to achieve efficiencies by reforming the structures of those programs without taking away any benefits, in fact adding benefits in most cases for our servicemembers.

Senator TILLIS. Thank you, Mr. Chair.

Senator REED [presiding]. Senator Hirono?

Senator HIRONO. Thank you, Mr. Chairman.

I do want to commend Senator Kaine for his observation that it is always good to have women at the table as well as on the committee.

I am looking at your retirement plan, and again, I thank all of you for your service, and I'm looking at the retirement plan that significantly increases the number of members who will receive benefits. I think that is very commendable. The plan does require contributions, basically mandatory 3 percent deductions from the servicemember's pay as well as depending on investment return.

Can you share with me what the current servicemembers think about a basically mandatory 3 percent contribution to TSP, and what concerns you have about volatility in the market that will probably arise, and what assumptions did you make regarding market volatility in coming up with your charts regarding retirement benefits?

Mr. MALDON. Thank you, Senator, for the question.

Senator, on each of those counts that you just mentioned, we actually looked at those. The response to the first part of your question, regarding what servicemembers think, I think we were informed that servicemembers felt very strongly that this is an increased benefit. This is kind of what they are wanting. This is what they are looking for.

I think they told us through the survey responses that they really want choice. They want the flexibility of being involved in helping design the kind of compensation package they prefer, and then how they would receive pay. Those things are very important to them and they mentioned that to us.

I am going to ask the Commissioner Zakheim to talk specifically to the other part of that question and those benefits.

Mr. ZAKHEIM. Thank you, Mr. Chairman.

Senator, first of all, in the United States generally, 97 percent of those who are put automatically into a plan stay in that plan. That already gives you one indicator.

Another indicator is that right now 40 percent of the military are voluntarily contributing to TSP. So 4 out of 10 without any kind

of automaticity, without any kind of government matching, or anything like that, are putting their money into TSP.

So if you take those two figures and put them together, you are going to get an answer that tells you that they will all see the benefit of this.

Frankly, you can always opt-out if you want.

Senator HIRONO. I understand. That part I think I am reassured by your responses.

On the market?

Mr. ZAKHEIM. On the market, the volatility, what we assumed is that the money would be invested in very, very conservative kinds of funds. Obviously, again, in TSP, you can choose from a variety of funds. But our assumptions were that there is one particular fund that would essentially follow people's lifestyle, so when you are younger, you are probably willing to take more risk. As you get older, you get more conservative.

Again, I think the record of TSP itself, and the fact that people, that the civilians stay in, that the military voluntarily go in, tells you that they trust the fund managers and, of course, are making their own choices.

So I think we felt very comfortable with the recommendation, in terms of market volatility.

Senator HIRONO. Thank you. That is reassuring.

I am looking at one of your other charts, chart nine, where pregnancy and childbirth and newborn care are the top two procedures done in the MTFs. If we move into the private sector insurance market, what kind of effects do you think will occur as a result of that, in terms of cost and other impacts? These are huge numbers for these two procedures.

Mr. MALDON. Senator, thank you for the question.

Commissioner Buyer, would you respond first to the question?

Mr. BUYER. I am going to do a tag team with General Chiarelli in my response to this.

I think this chart when you look at it, it is surprising. It will be surprising to a lot of people when they look at this. There is an assumption that the medical providers at the MTF are providing procedures that really hone the skills that make those doctors and nurses combat-ready. Then when you look at a chart like this, you say, well, I suppose building the cohesion of the medical team, that is an added plus. But with regard to the skill sets that are needed, something is missing here.

What I am going to do is tag team with General Chiarelli here because there are two pieces of this. As we move to a selection of plans, we want the MTF to be part of the network, because the procedures that the MTF needs are not these procedures that you see in the chart.

So the creation of the jointness and the essential medical capabilities, I am going to pass it over to General Chiarelli, if I could.

General CHIARELLI. I think it is absolutely critical that you understand the concept of essential military capabilities. That is built into what we are doing here.

Those are those things, simply stated, that transfer to the battlefield. When you get the surgeons general in here and you show them this chart, they will argue that, hey, we get a lot of great

training out of taking care of all of those childbearing issues and childcare issues.

All we are saying is that probably you do, but if we could rearrange your workload, we would give you more of the kinds of things that you see in combat.

I think it is absolutely essential, as you talk to the different interest groups there, as a retired person, I'm looking at how you are going to provide care for me in my golden years. If you get stuck on that, you will miss the essential piece of what we have to do in the medical area, and that is care for our men and women when they are sent into harm's way, and ensure that we have people who are trained to do that based on the kinds of wounds they are going to get.

Senator HIRONO. Thank you, Mr. Chair.

Senator REED. Thank you.

Senator Lee?

Senator LEE. Thank you, Mr. Chairman.

Thanks to all of you who are appearing here today and who have served on this commission to make recommendations that are so important.

This is, of course, something that is going to have a profound impact on the men and women who are currently serving or have previously served in our military.

I hope that all Americans, particularly those who are currently serving or are veterans, can take the time to give these recommendations the thorough consideration they deserve. They can become part of a debate, a debate that we need to have to help figure out how we can provide better for the needs of those who serve us and have served us in the past, and simultaneously help us to maintain the strength, the viability of our military.

I will ask this question to anyone who would like to answer it. Did the commission find the current lack of a retirement program similar to that recommended by the commission, that the absence of a plan like that right now is having an impact on recruiting and retention? In other words, currently, we don't have a retirement system in place in the military that provides any benefits for those who serve for less than 20 years. Is that impacting recruiting?

Mr. MALDON. Senator Lee, thank you for the question.

When we looked, we took a very strategic approach to designing the right kind of structure for the compensation programs that are going to really support an All-Volunteer Force for the future. As we designed the structure for the program, in terms of how we might make a recommendation to modernize the current retirement system, we wanted to make sure we knew exactly what was of interest to the servicemembers that we would need to recruit and retain.

The recommendations that we provided, we are absolutely convinced that they are the right set of recommendations here on having a blended retirement plan, because it does two things. It actually supports the retention needs by the Services, and it also supports the recruiting challenges that the Services would have.

We believe that the recommendations that we made will absolutely take care of the recruiting and retention needs, and it is very important that they also support the current force profiles. The Services were very interested in making sure that we provided

them with the tools so they could make those adjustments to continue to meet the recruitment and retention needs for the Services as we move into the future.

Senator LEE. So moving forward, if we were to adopt something like this, you think it would help recruiting and retention?

Mr. MALDON. Absolutely.

Senator LEE. Let's talk about the commission's finding. Let me quote this to make sure I get it right. The commission found, "The current compensation system is fundamentally sound and does not require sweeping overhaul."

But it also recommends that servicemembers who need nutritional assistance be transitioned into the Supplemental Nutrition Assistance Program (SNAP), the program formerly known as food stamps. So let me just ask the question, if servicemembers are in need of SNAP benefits, and if the report is contemplating that some or many of them will need SNAP benefits, that would, of course, be in addition to their regular compensation. Does that undermine your conclusion that their current compensation structure is adequate?

Mr. MALDON. When we talk about the current compensation structure, we are basically talking about the pay table itself. We didn't see a need to change the pay table, because the pay table has supported the All-Volunteer Force for the last 42 years, and specifically during the last 13 years of war.

But we also recognize that because there are constant changes taking place here, a new generation, and also just the requirements of the servicemembers themselves, with regard to the size of families and that kind of thing, so there is an important purpose that the SNAP program served.

We took a hard look at that, talked through that extensively. I will ask Commissioner Carney if he would respond initially. Then very quickly, Senator, I would like to ask Commissioner Higgins to follow up as well.

Senator LEE. Okay. Mr. Chairman, if I could, I have one minor follow-up question I want to add to that, if he is going to answer that as well.

I also am curious to know how many people might be, if you were to eliminate the Family Subsistence Supplemental Allowance (FSSA), how many servicemembers might be enrolled in SNAP and whether we have any kind of estimate as to what the increased cost would be.

Mr. CARNEY. Senator, right now, the number of enrollees in SNAP from the Department of Agriculture is somewhere between 2,000 and 22,000. That is their estimated range. That is the best information we received.

On FSSA, I think there are 285 people altogether in the military in FSSA. Now, FSSA is restrictive. It is harder to get. There is also kind of a stigma attached with it as well. You have to go through your chain of command to get it, so does that impact your career somehow? So there are these kinds of things that make it probably less attractive and probably less useful, certainly, for the continental United States and the near territories. Now for overseas, it may still serve some useful purpose.

But the SNAP program, notwithstanding the fact that it needs to exist for some of our military, it is something that is easier to get. It provides better nutritional value for the families that require it.

So either phasing out or reducing the FSSA program is not a bad idea because SNAP fills in the gap very nicely.

Senator LEE. Okay.

Thank you, Mr. Chairman.

Senator REED. Senator McCaskill, please.

Senator MCCASKILL. First, I want to note that your votes were unanimous; is that correct?

Mr. MALDON. Yes. That's correct, Senator.

Senator MCCASKILL. That is quite an extraordinary thing for all of us who sit on this side of the table. We don't see much very much that is unanimous, especially with the makeup of this particular commission. I am familiar and I have worked with many of you, and I know it is bipartisan, and I know you come from different perspectives. I know you probably came to the commission with different viewpoints at the beginning. The fact that you worked this hard and came up with this proposal adopted unanimously is something that I hope, before we get off to the races trying to politicize anything on this side of the table, that we pause a moment and realize that you might have gotten this right. This might exactly be what we need to be doing.

So I want to compliment you in that regard.

First of all, I think our country needs to save more, and our military always sets the example for our country, in terms of the values and ethics embraced by our military. So I think the way this plan embraces saving is terrific.

I think most Americans don't know that if you are in the military, that your TSP contributions are not matched currently, unlike all other Federal employees who get a match. I think that is, obviously, a double standard that is inappropriate. So the fact that we would move to a match for members of the military makes a great deal of sense. I think this part of it is terrific.

Now, here is the tricky part. If we are going to reduce defined benefits to 40 percent, and someone can retire with 20 at 38, so they are 38 years old, they can't access that TSP until they are 59½. Then eventually, not too long after that, they would be looking at Social Security in addition to that.

So during that period of time, assuming someone is retiring at 38 or 39 or 40 from the military with 20, was there any discussion on the commission about making a special rule or special circumstances where someone could access TSP before they were 59½?

Mr. MALDON. Senator, I'm going to ask Commissioner Zakheim. These are the kind of questions that these former comptrollers really love to have.

Senator MCCASKILL. I have missed him. We had great work, when I first arrived in the Senate. So I am happy to hear from you.

Mr. ZAKHEIM. Thank you so much, Mr. Chairman and Senator.

Right now, as you well know, you retire at 20, and then you start getting a monthly payment. So by definition, the 40 percent you are speaking about, you are going to get.

Now in addition to that, once you retire, you can get a lump sum payment, if you choose to do so. Or you may say no, I don't want that, I want it later on.

So you have in fact given the individual much more choice than he or she has today, because you can choose the lump-sum payment, and you will get that with a reduced payment until full Social Security kicks in. Or you can say no, I'm staying with my 40 percent, my monthly payments. So you basically, now, are in much more control of your financial situation.

One other point as well, and this was mentioned by my colleague Commissioner Carney and others. We put a huge premium on financial education. We actually spoke to some of the foreign militaries to see how they do it as well.

Right now, you take an 18-year-old or a 19-year-old or 20-year-old and you fire hose them for a few hours about financial management, and it is in one ear and out the other. What we are proposing to do is have regular sessions at key points in their careers, key promotions, or something happens in your family life, you get married, you have children, whatever. So they can learn the nuances of financial management in a way that, when they hit the 20 or if they leave sooner, they can make an informed choice about what they want to do with the money they are entitled to.

So to answer your question, it seems to me, at least, that you are putting the person in uniform at a far greater advantage even with the 40 percent versus the 40 percent, because of the lump sum, because of the financial education, than they currently have today.

Senator MCCASKILL. I know my time is almost up, and I thank you for that.

I will have some questions for the record about whether or not we should allow them to continue to make contributions matched to TSP during the pendency of their retirement before they are eligible to pull out with their payment, whether or not that costs out in a way that would make sense to the commission. Some questions about why not just going to FEHBP, instead of creating another system. What are the advantages there? Are they substantive in policy or are they political?

Finally, the one that I really would like to hear from you about, and I want to recognize General Chiarelli for the trailblazing he worked, especially in the suicide area. I am very familiar with how hard you worked on that, both while you were active and after your retirement.

But I'm a little worried about the most expensive recommendation you made, which is another command, standing up a three star. We tried to work against quite so many flags. In fact, Gates, as you all know, did away in 2011 with the joint forces command, and I am trying to think how this new $300 million a year stand-up adds to the expertise we have now, because we are still going to have surgeons general in every branch.

I have to be convinced that we need another group at the Pentagon. I have a great deal of affection for all of our generals and what goes with them, but three stars are expensive, especially everything that goes with them. What are we really going to gain by adding this new command at the Pentagon.

I am over my time by 1:48, so I don't know whether the chairman wants that to be answered now or whether you want to take it for the record. But that is the only part of this that I start out a little skeptical about.

Mr. MALDON. Senator McCaskill, thank you very much. Just very quickly, I know we are out of time here, but I would like to take the opportunity so that we can respond to that.

Let me just say real quickly, the readiness command that was recommended, we really deliberated on that. We took a lot of time and spent it on that. Every recommendation that we made in this report was made with that in mind, the need for readiness. There was a readiness implication to every recommendation that we made.

So when we proposed a readiness command, we did this in a context of understanding that it is much bigger than a medical readiness component that it has oversight for. They are much larger in terms of a number of things that fall underneath readiness.

The medical readiness piece is only one component of that, and we were basically wanting to make sure that, if we are going to ensure success of the medical readiness, we must have proper oversight. That means having the right kind of people, the right person in charge with the right kind of ranking to be able to go to the budget meetings, and to those decisionmaking venues and hold the presence with the other Service Chiefs, and to be able to actually have influence with the surgeons general of the Services.

I will ask Commissioner Chiarelli to speak to that more specifically, if you will.

General CHIARELLI. Senator, I will only tell you that it is absolutely essential that in this whole process of changing the way we deliver medical care that we keep our MTFs a viable training ground for not only the doctors and physicians, but the entire medical team, to include our corpsmen and our medics, so that they are trained for the thing that civilian hospitals don't do and that is go to war.

There will be a tendency as we give the opportunity to get their health care on the outside, there could be a tendency in future budget periods to draw down on what is left in that MTF with our eyes covered not realizing that we may have to deploy the people in those MTFs far away to support those individuals who are in combat.

To me, that is an absolute essential piece of this entire thing, to ensure that we do not allow that to atrophy should we enter into an extended period of time when those resources do not have to be deployed.

Every single one of our recommendations, as I went through them, and I understood where I sat before, without getting into great detail, I will tell you every single one of our recommendations impacts readiness in some way. Someone from a joint readiness standpoint, remember, this is what is critical, we gain efficiencies in jointness. Somebody from a joint readiness perspective has to look at the entire readiness portfolio to include medical and ensure that we maintain that.

I will end by saying I think the $300 million is a very conservative large number. We believe many of these resources exist cur-

rently. When we took down Joint Forces Command, many of them were transferred to other locations, many of them in the Pentagon, and the resource, much of that, and we couldn't totally put our hands on it, will be pulled out and you will see a much smaller bill than the $300 million that is cited in our report.

Senator REED. Thank you.

Senator Graham, please.

Senator GRAHAM. Thank you, all, for a lot of hard work, and I think a very good product. To those who want to suggest alternatives, you are welcome. We will take any new good idea to make this better. To those who think it is wrong, we will accept criticism. But we will not accept demagoguery. We are not going to play that game.

If you have a good idea, bring it. If you think they missed the mark, we will certainly listen to you. But we are not going to play the demagoguery game, because change is afoot, and it is necessary.

Congress required you to do your job. Do you understand what we were asking you to do? Were we trying to get you to fix a broken system? There is an old adage, if it's not broken, don't fix it. Or were we trying to get you to make a system better? What was your mandate, in your own mind?

Mr. MALDON. Senator Graham, thank you for that question. It is our understanding that our mandate was to modernize, make recommendations for modernizing.

Senator GRAHAM. So it wasn't your mandate from Congress to just go save money?

Mr. MALDON. Absolutely not. That was not our understanding.

Senator GRAHAM. So it was you understanding that Congress wanted you to look at a 70-year-old system and see if you could make it better and more efficient, right?

Mr. MALDON. Correct, Senator.

Senator GRAHAM. On the combat medicine point, do you agree that we have the best combat medicine any time in the history of the modern military?

General CHIARELLI. After 13 years of war, we do. But I don't believe we had it going into this. I think we got better and better.

Senator GRAHAM. We have it now?

General CHIARELLI. Yes, and we have to maintain it.

Senator GRAHAM. That's right. Don't lose it.

So if the core function of military health care is to make sure the force is ready to fight, then we have to make sure we hang on to that. That is what you are telling us, right?

General CHIARELLI. Exactly.

Senator GRAHAM. We learned from the Guard and Reserve when the war first started that a lot of people didn't have dental coverage and 25 percent of Guard and Reserve were disqualified for deployment because of dental problems. Is that true?

Mr. ZAKHEIM. That is true.

Senator GRAHAM. Congressman Buyer?

Mr. BUYER. Yes.

Senator GRAHAM. That is true, because your brother is a dentist. We have overcome that, so we don't want to go back to that system of having a health care system that doesn't make you ready to

fight, having a health care system that can't keep you in the fight and save your life if you get injured.

I think Senator Kerrey probably knows more about that than anybody.

So those are my guideposts. I don't want to lose ground on the major functions.

As to retirement, no one is suggesting that we are changing the retirement system to 40 percent versus 50 percent for those on Active Duty, are you? Everybody is grandfathered?

Mr. MALDON. That is correct, Senator.

Senator GRAHAM. I heard that conversation. If I just walked into this room not knowing the context, I would think that a 40 percent retirement change had been recommended by the committee for those on Active Duty. That is not true.

This chart, who did your polling?

Mr. MALDON. That polling was done by True Choice. It has to do with the survey that we conducted.

Senator GRAHAM. I can't imagine too many things that I do where 80 percent of the people prefer something new to something they have. So you feel good about those numbers?

Mr. MALDON. Senator, we feel very good about that, unanimously.

Senator GRAHAM. Okay. What about the retired community? Do you have data about how they feel about the proposed changes?

Mr. MALDON. Well, the feedback that we have gotten is that——

Senator GRAHAM. Can you poll retired military members and find out?

Mr. MALDON. We polled retired as well as Active Duty and Reserve components.

Senator GRAHAM. So what were the numbers on the retired community?

Mr. MALDON. Senator, let me take that question for the record.

Senator GRAHAM. Fair enough. I want to see both ends of the spectrum here.

[The information referred to follows:]

First, it is important to note that retirement pay of retired servicemembers is grandfathered and therefore not affected by the Commission's recommendations on retirement pay.

In the fall of 2014, the Commission surveyed current and retired servicemembers about their preferences for changes to military compensation, including retirement. More than 100,000 retirees responded to the survey. The results, when weighted to represent the overall retired population, show that retirees were evenly split between a preference for a new "blended" retirement plan (49 percent) compared to the plan they have now (49 percent). Although the questions were developed and asked before the Commission arrived at its recommendations and therefore did not reflect the Commission's exact final retirement recommendations, the questions did ask about a blended retirement plan that included reducing the retirement annuity multiplier from 2.5 to 2.0 and enhancing the Thrift Savings Plan with the Department of Defense matching up to 5 percent of servicemember contributions. These specific changes, along with others, were included in the Commission's recommendations. It is worth noting that retirees under the age of 55 (53 percent) and those who retired from the Reserve component (55 percent) expressed a somewhat greater preference for the "blended" retirement option compared to what they have now.

Senator GRAHAM. It seems to me that the jury is in, that the people on Active Duty like what you are proposing. If they had an option, they would take the new system.

I think what we need to understand as members of this committee is where is the retired force. What do they think about the proposed changes? Because the health care changes are not grandfathered, is that correct?

Mr. MALDON. That is correct, just retirement.

Senator GRAHAM. All right, so at the end of the day, your recommendations on health care are driven by the fact that we think we can provide better choice, more efficient for the patient, more efficient for DOD, and actually get more choice and better coverage. Is that correct?

Mr. MALDON. That is correct.

Senator GRAHAM. If we do nothing in terms of health care costs, it is exploding in terms of DOD's overall budget, and somebody needs to deal with it. Is that correct?

Mr. MALDON. In terms of fiscal sustainability, that is correct, Senator.

Senator GRAHAM. Because you have a situation where you have to deal with retiree health care at the expense of readiness to fight the war of today and tomorrow, and that is a choice we don't want to make.

Mr. MALDON. That is correct.

Senator GRAHAM. Thank you all for your hard work.

Mr. MALDON. Thank you.

Senator REED. Senator Cotton?

Senator COTTON. Thank you all for your service, not just on this commission, but many of you have served our country in other ways.

I have questions about some of the retirement proposals, and then if we have time at the end, about the commissary proposals.

Could we get chart three up maybe, as a way of providing an illustrative point of discussions.

Chairman Maldon, I will direct questions to you, if you want to farm them out that to subject matter experts, that is fine.

This shows, on the left, the current defined benefit system. Get 20 and get half-pay. On the right, you show your blended plan of a defined benefit along with a TSP contribution and government match, and then the continuation pay at 12 years.

Was there any consideration about trying to move to a pure defined contribution system?

Mr. MALDON. Senator, we have a defined benefit system now, and to move to a complete defined contribution system, we believe would not give us all of the retention benefits of the traditional military retirement. That is why we wanted to keep both systems blended, because we can take care of both our retention needs as well as the recruiting needs.

Senator COTTON. Okay. Does anyone else want to elaborate?

So I understand that trying to keep benefits roughly the same, or, in this example, better is one goal. Giving services and personnel flexibility is another goal. Retaining the force and maintaining the force is one goal. So the assessment of the commission is the 20-year defined benefit plan is important to maintain that last goal, retaining personnel for this full 20 years.

Mr. MALDON. Yes, Senator, that is correct.

Senator COTTON. Any consideration of like a stairstep approach to the continuation pay, rather than saying the one at 12 years, another 4 years extension, maybe having two or even three periods within a 20-year time horizon where you are encouraging people to reenlist or officers to remain?

Mr. MALDON. Senator, the current program as it is today, the compensation system, we have special pay, incentive pay. We have those bonuses that servicemembers are being paid. So we have those stepping stones that servicemembers have as a benefit through those programs already.

This would be that retention piece that would take the servicemember now to a point of having 12 years plus a 4-year obligation that would get him to that 16th year, which means they are close enough to retirement that that is the retention will keep them there.

Senator COTTON. So the thinking is that not many people leave after 12, and very, very few leave after 16?

Mr. MALDON. That is correct.

Senator COTTON. Under this proposal, let's say a hypothetical E–7 who has had 7 or 8 years down range, three or four deployments. He would be leaving with his contributions to his defined contribution plans and the government match, is that right?

Mr. MALDON. If he elected to——

Senator COTTON. If he didn't reenlist at 7 or 8 years.

Mr. MALDON. Yes.

Senator COTTON. There is probably data to illustrate this. Do we have any problem retaining this kind of midcareer, senior NCO, company grade officer, field grade officer, in the 6 to 9 year range?

General Chiarelli?

General CHIARELLI. It depends on the military occupational specialty. It is one thing to retain an infantryman who is willing to hump a 60-pound ruck up the mountains of Afghanistan and keep him in as a platoon sergeant to 24 as opposed to someone who is trained with I.T. skills or is an airplane mechanic and can work in other areas.

That is why it is absolutely essential the continuation pay be flexible and the Services have the ability, based on the military occupational specialty, to apply differing amounts depending on the military occupational specialty.

I will tell you, rather than stair step, I believe that our RAND modeling showed this was the critical period.

The critical period, my guys used to tell me, is 8 years and 27 days. The model that was in place before was, if I could keep someone in under a defined contribution of 50 percent past that magical mark, I had a better than average opportunity to maintain them longer.

But our modeling for this particular plan told us that that the 10- to 12-year mark is absolutely critical.

Senator COTTON. My time is almost expired, so my commissary question will wait for another day.

Senator REED. Do you want to ask another question?

Senator COTTON. Sure. I'd be happy to.

So I have been stationed at bases, Fort Campbell stands out in my mind, that had a nice commissary. But it had an even better

Wal-Mart Supercenter right outside the gates. There are obviously bases in America, especially bases around the world, where we need an on-base commissary to provide the choices that our servicemembers have become accustomed to. Was there any consideration of assessing local sites around bases and forts, about whether or not a commissary is needed on that location?

Mr. MALDON. Senator Cotton, we spent quite a bit of time talking to servicemembers, family members, installation commanders across the country on that. Polling told us the same thing. We had people that were in different places on how they perceived the value of the commissaries.

Overwhelming, though, people believed it was very important to retention to have the commissaries there. There are people that would tell us that they have these other shops. We talked to some of the big shop warehouses, if you will. The stores, the Wal-Marts, the others, about the benefits they would offer if they were to offer a benefit.

Quite honestly, at the end of the day, no one was willing to stand behind their comments that they made or had about providing savings to the servicemember.

Our intention here was to make sure we could protect the benefit of the servicemembers, and servicemembers believe that this is a big savings to them and that they also believe it was a retention tool.

That is the way we went about moving forward with our recommendation on the commissaries.

Mr. ZAKHEIM. Could I just add to that, Mr. Chairman, Senator, several of the big chains talked about issuing a card, and you probably heard that too, that they will issue some cards to the military. When we ask their representatives point-blank, would you do it? Never got a straight answer.

At the same time, we did hear—now, look, there are some people who will order their food online. We know that. But by and large, people want that. They want it because it is convenient, for a start. It is near them. It is military. They understand it. It is responsive to their needs.

So we looked at that and made our recommendations based on the feedback. Again, different folks will have different requirements. But pretty much overwhelmingly, this is not something they wanted to go away

General CHIARELLI. Proclivity to use the commissary is based on a whole bunch of things, and one of them is the size of family. We had the FSSA and SNAP issue before. There are arguments about how much it saves. But if you even cut the high number, the 31 percent, in half, it is still a great savings to that E–7 with four kids and a wife who made a decision to stay home and take care of the kids, and to be an at-home mom. It is an unbelievable place for them to save the kind of money they need as part of the benefit we provided them.

Senator COTTON. Thank you all again for your service and this important report. We look forward to working on it.

Having dealt with junior enlisted men who are new to the Army, I can say the financial literacy proposals are very critical as well.

Having been a Member of Congress and now a Senator, I say maybe we should add that to our orientation as well.

Senator REED. Thank you very much, Senator.

On behalf of Chairman McCain, I would like to request unanimous consent to include written comments in the record from outside groups for up to 30 days after the conclusion of the hearing. Any objection?

Hearing none, so ordered.

[The information referred to follows:]

See Appendixes D through O at the end of this hearing record.

Senator REED. Also on behalf of the chairman, I would like to thank the witnesses for their excellent testimony, for their extraordinary contribution to this critically important issue. Thank you all very much.

The hearing is adjourned.

[Whereupon, at 11:56 a.m., the committee adjourned.]

[Questions for the record with answers supplied follow:]

QUESTIONS SUBMITTED BY SENATOR JOHN MCCAIN

HEALTHCARE

1. Senator MCCAIN. Commissioners, in your discussions with various constituencies—military and veterans' service organizations, servicemembers and their families, and retirees and their families—what were their major concerns about the current military health system and how do your recommendations address those concerns?

Mr. MALDON. TRICARE beneficiaries expressed three major areas of concern about the program: access, choice, and value.

Access:

- There are limited provider networks in TRICARE. For example, in Fayetteville, NC, 15 orthopedic doctors are in the TRICARE network compared to 43–163 orthopedic doctors in other networks.
- Unavailability of appointments with the assigned primary care manager leads to lack of continuity of care.

Value:

- Cumbersome referral and authorization processes lead to wait times as long as 35 days for specialty care.
- Referrals for civilian care, with inadequate information on which civilian providers actually accept TRICARE, lead to families giving up on TRICARE and paying out of pocket to receive needed health care.
- The appeals process for medical necessity determination is frustrating and long.
- The one-size-fits-all approach to care does not work.
- Beneficiaries are unable to access care that serves their individual needs.

The commission consistently received the following feedback from Reserve component (RC) members:

- There is a lack of continuity of care transitioning to and from active duty for the RC.
- There is a lack of continuity of care for families when the servicemember is activated and if the family's existing health care providers do not accept TRICARE.
- RC members must continue to pay the employee's share of the insurance premium if they choose not to accept TRICARE coverage. In cases in which employers stop paying the employer's share of the premium, RC members must fully fund the existing health insurance.
- When RC members are not supporting a contingency operation during activation, TRICARE coverage ends abruptly upon demobilization, allowing no time for RC members and families to find civilian insurance, which in turn leads to a break in health coverage.

Gaining access to medical care in the civilian sector through various commercial insurance plans would be a simpler, quicker endeavor under TRICARE Choice. TRICARE Choice would provide multiple health insurance options from which beneficiaries would select the plan that best meets their current needs. This opportunity for choice would preclude beneficiaries from having to purchase options that are not necessary for meeting their individual needs, while at the same time providing them the care that they do need in a timely manner, with the provider of their choice.

2. Senator MCCAIN. Commissioners, you have recommended that military retirees' healthcare costs increase over a 15-year period such that retirees ultimately would pay about 20 percent of the overall costs of their healthcare. How did you determine that was the right approach to get retirees to share more of the cost for their healthcare?

Mr. MALDON. Currently, the retiree premium for TRICARE Prime is approximately 5 percent of the cost of the program. When TRICARE began in the early 1990s, the retiree premium for TRICARE Prime was approximately 27 percent of the cost of the program. The premium was not indexed for inflation. The commission wanted to increase access to high valued commercial insurance products, while providing recognition of service. For this reason, the ramp stopped at 20 percent and did not continue to 27 percent.

3. Senator MCCAIN. Commissioners, in your view, how much money are retirees willing to pay for better healthcare for themselves and their family members?

Mr. MALDON. Importantly, the commission's recommendation was designed to explore the answers to this question and these are discussed below, but the most important point to make is that the commission's recommendation was designed to take into account a wide range of differences in retiree willingness to pay for better healthcare. TRICARE Choice would provide a wide range of plans that vary along many health care attributes (e.g., network size and access). These plans would have different costs. There would be some lower-cost plans that offer a similar benefit to TRICARE today (e.g., limited access and networks like the current TRICARE plan). There would be other plans with much more expansive covered services, networks, and access; these plans would cost more. Retirees would be able to choose among such plans. A retiree with a low willingness to pay for better health care could choose one of the lower-cost plans that more closely mirrors TRICARE today, and a retiree with a higher willingness to pay could choose a much richer plan for a higher cost. TRCIARE Choice would allow retirees to self-select the plan type they prefer and empower retiree families to take control of their own health care experience-a consumer-driven model focused on value and choice.

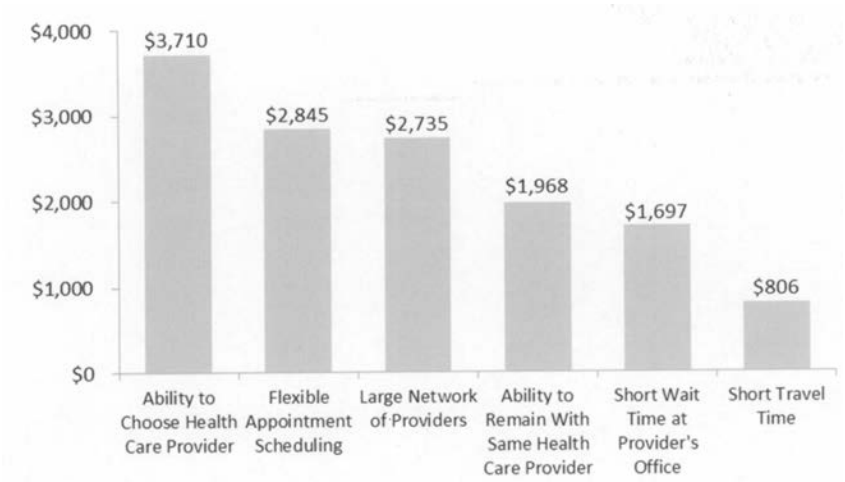
As part of its analyses, however, the commission did explore this question in some detail and developed some preliminary answers. There were three primary methods used by the commission:

- Examining academic literature that estimates this willingness to pay.
- Surveying actual retirees to estimate their perceived value of choice and better healthcare experience.
- Simulation modeling of the behavior of Federal civilians who are similar to military retirees in age, income, and location.

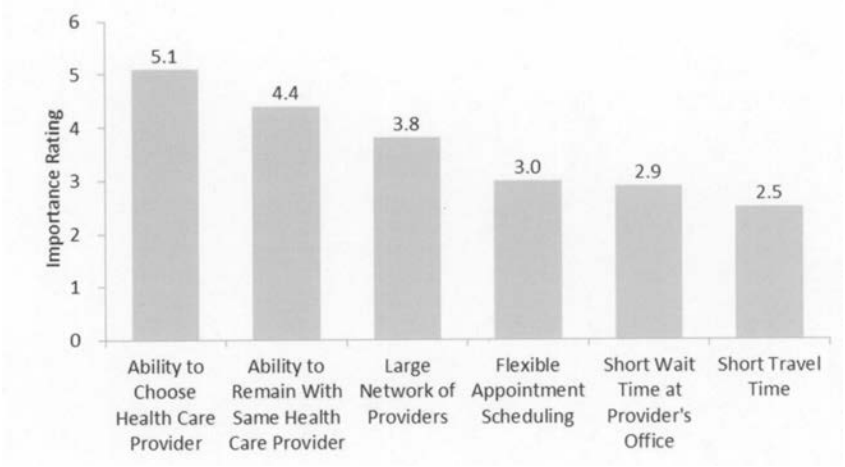
The academic literature estimates how much workers who are not provided a choice of plans would be willing to forfeit of their employer-provided health care subsidies for the freedom to use the subsides to obtain their choice of plan from a menu of plans.[1] This estimate, based on actual data from workers, was that the workers were willing to forfeit 16 percent of their subsidy. The estimates from the academic literature were consistent with the commission's survey results and with the cost share changes for retirees in the commission's recommendation.

The commission directly measured the perceived valuation (very similar to willingness to pay) of health care benefit attributes for Active Duty family members in its survey. The survey did not directly measure perceived valuation of those attributes for retirees, but did measure preference intensity for them. Figure 19 on page 109 of the commission report provided these perceived valuations for Active Duty family members. The values are in annual dollar amounts.

[1] Leemore, Dafny, Kate Ho, and Mauricio Varela, "Let Them have Choice: Gains from Shifting Away from Employer-Sponsored Health Insurance and Toward an Individual Exchange," American Economic Journal: Economic Policy, 5, no. 1, (2013): 33, 56.



The intensity of preferences for retirees was provided in Figure 14 on page 88.



As discussed in the report, retirees' perceived value of increasing choices among health care providers, which was only one of the six health care attributes presented, was higher than the value of a 35 percent grocery discount at commissaries or a 20 percent one-time cost-of-living adjustment.

The third method looked at by the commission was the actual behavior of Federal civilians who were similar to retirees in age, income, and location. To support its cost analysis of the recommendation, the commission examined the insurance plan choices of Federal civilians and contracted with the Institute for Defense Analyses (IDA) to develop a simulation model of retiree (and Active Duty family member) health care plan choice. A detailed review of that model is provided in the IDA report on the commission's website (http://www.mcrmc.gov/public/docs/report/IDA–Paper-P–5213—Final—020215.pdf). That model predicted that most retirees would take advantage of the choices provided to them and upgrade to a richer health care plan rather than the low-cost plans similar to TRICARE today.

4. Senator MCCAIN. Commissioners, what are your estimates of the annual healthcare costs—premiums, co-pays, deductibles—for retirees and their families under the proposed TRICARE Choice?

Mr. MALDON. Health care costs for retirees and their families under TRICARE Choice can be divided into two components. The first component would be what they pay for coverage similar to what they have today under the existing TRICARE program. To create a relevant comparison, cost should be compared for similar coverage. In TRICARE Choice, retirees would have many options for health care plans and could choose to purchase enhanced coverage (broader networks, better access, and more covered services), rather than the existing TRICARE program. The second component would be any additional cost retirees choose to pay to purchase coverage that includes these enhancements. If retirees take advantage of the additional choices made available to them by TRICARE Choice, it can be argued that they will not experience a price increase, but rather a compensation increase because the retirees receive the better coverage at a subsidized rate.

To evaluate these separate components of cost, the commission considered two plans from the Federal Employees Health Benefit Plan (FEHBP) as examples of what types of plans might be offered in TRICARE Choice. The first plan is the Government Employees Health Association (GEHA). Although not a perfect comparison, this plan is considered most similar to the existing TRICARE program. GEHA includes larger networks than the existing TRICARE program in the markets examined by the commission and more covered services. But it is a lower-cost, PPO-style plan and is the best comparison the commission could find for the existing TRICARE program. The second plan is Blue Cross Blue Shield (BCBS) Standard. This is one of the most robust and highest-cost plans in FEHBP and is used to illustrate the costs to retirees who exercise the opportunity to select better coverage made available to them by TRICARE Choice.

The table below shows the costs to retirees for these options: existing TRICARE program, TRICARE Choice with a plan similar to GEHA, and TRICARE Choice with a plan similar to BCBS Standard. The first row of data illustrates the costs retirees pay now under the existing TRICARE program. Retirees enrolled in TRICARE prime paid a $548 (in 2014) premium. In addition, about 3 percent of retirees sponsor the purchase of TRICARE Young Adult (TYA) for about $2,000 and about 65 percent purchase the TRICARE Retiree Dental Program for about $1,500 per year. This means that the average retiree is pays approximately $1,544 per year in premium costs for TRICARE. Adding in their copayments and deductible amounts for health care provides an average annual cost of about $2,030 per retiree household.

These costs would be largely unchanged in the first year of TRICARE Choice, when the retirees' premium cost share is 5 percent. These costs would increase, however, by the time TRICARE Choice was fully implemented with a 20 percent cost share (15 years after program initiation). In that year (using constant 2014 dollars), the comparable health care plan (GEHA) would have a premium for retirees of about $1,769 per year. No retirees would have to buy TYA and some retirees would rely on the partial dental coverage provided in GEHA instead of purchasing stand-alone full dental coverage, so the total premium amounts paid by the retiree in GEHA would be about $2,267 per year. Adding in copayments and deductibles provides an average annual cost of about $3,556 per retiree household.

The comparison to GEHA is the best available comparison with the existing TRICARE program. There would be many retirees, however, who choose to purchase better coverage that costs more. A retiree who chooses to purchase better coverage, like BCBS Standard, would pay about $552 more per year ($3,556 to $4,108) for a plan with a value of about $2,763 more than GEHA (because the government would pay an 80 percent cost share at the end of the 15-year period, the government would be paying the remaining $2,211 for the added value of health benefits. Thus, these retirees are experiencing an increase in their compensation.

Understanding Non-Medicare Eligible (NME) Retiree Costs

Family Plans
(FY14$)

	NME Retiree Health Care Premium	Average NME Retiree Premium Payments*	Average NME Retiree Costs**
TRICARE Today	Current TRICARE		
	$548	$1,544	$2,030
TRICARE Choice	First Year (5% share of the total premium)		
GEHA	$442	$941	$2,229
BCBS Standard	$580	$1,079	$2,367
TRICARE Choice	Full Implementation (20% share of the total premium)		
GEHA	$1,769	$2,267	$3,556
BCBS Standard	$2,321	$2,820	$4,108
* Health, Dental, and child up to age 26			
**Premiums plus out-of-pocket costs			

5. Senator MCCAIN. Commissioners, under your proposed TRICARE Choice plan, Military Treatment Facilities (MTF) would be network providers to commercial health plans. MTFs would bill commercial health plans for materials and services provided, and those health plans would then reimburse MTFs. Today, MTFs have limited capability to perform billing and collections functions. What additional infrastructure and personnel would MTFs need to perform those functions? How much would that cost the Department of Defense (DOD) and what is the return on investment?

Mr. MALDON. In the civilian sector, medical providers do not typically handle medical billing or insurance. These functions are usually handled by administrative or support services. There are companies that provide billing services to major health systems in the United States today. The companies also provide training for coding, billing procedures, collections, and related processes. The Military Health System (MHS) could benefit from such a professional service. Alternatively, MHS could expand its current third-party billing activities to handle the medical billing. If this latter approach were taken, MHS would need to ensure that existing administrative personnel were trained to perform such duties and that efforts currently underway to modernize MHS information technology (IT) would support this task. In 2014, DOD awarded a contract to General Dynamics to build the Armed Forces Billing and Collection Utilization Solution (ABACUS) to generate medical claims, pharmacy claims, invoices, and governmental billing forms at 136 military medical treatment facilities globally. ABACUS will replace legacy IT systems and automate, consolidate, and centralize the Army, Navy, and Air Force's separate health billing and collection IT systems. Adequate time would be required to set in place coding, billing, collections, and related systems, regardless of the system chosen, which is, in part, why the commission's proposed legislation includes a 2-year implementation period before transitioning beneficiaries into the new system.

6. Senator MCCAIN. Commissioners, how do your recommendations improve beneficiaries' access to care, quality of care, and the experience of care?

Mr. MALDON. Currently, TRICARE Prime is the only option available at no or limited out-of-pocket cost; however, under TRICARE Choice and including the Basic Allowance for Health Care (BAHC), most Active component families could choose from numerous plans with no or limited out-of-pocket costs. Under an insurance model, such as TRICARE Choice, the ease and timeliness of patients' access to health care would improve because beneficiaries would not be subject to DOD's lengthy and frustrating process for making appointments and obtaining referrals. By allowing beneficiaries the opportunity to select from an array of health plans, they could choose coverage that best fits their individual needs. Providing TRICARE Choice and access to commercial insurance plans would give beneficiaries access to the medical industry's most recent innovations and procedures, and eliminate the lengthy DOD contracting and appeals processes. RC members who are called to active duty would receive BAHC, which would create options for helping address concerns about cost and continuity of care that pertain to them and their families. One option would be to use BAHC to purchase a plan with a provider network that in-

cludes numerous providers, including the family members' current provider. Another option would be to use BAHC to pay for a member's current civilian plan. With commercial health insurance, beneficiaries who live away from major troop concentrations would have more extensive provider networks in civilian health plans.

7. Senator MCCAIN. Commissioners, how do your recommendations incentivize beneficiaries to seek the most cost-effective means of getting healthcare?

Mr. MALDON. TRICARE Choice would provide multiple health insurance plans from which beneficiaries could select the plan that best meets their current needs. This opportunity for choice would preclude beneficiaries from having to purchase options that are not necessary for meeting their individual needs. The recommendation also provides BAHC to be paid to servicemembers with dependents. The allowance creates a situation in which families spend their own money (subsidized by BAHC to be cost neutral) on health care, which provides a mechanism for more cost-effective decisionmaking. For example, a family is less likely to seek care in an emergency room for a minor injury or illness knowing the expense would be greater than that associated with care provided by a primary care or urgent care provider.

The TRICARE system today is unable to effectively manage the rate at which users consume health care because it has limited use of monetary and nonmonetary incentives to influence beneficiaries' behavior and promote better health outcomes. One reason utilization is substantially greater in TRICARE than in the civilian sector is the relatively low out-of-pocket (OOP) expenses-copayments, deductibles, and coinsurance-experienced by TRICARE beneficiaries compared to their civilian counterparts. Although OOP costs are an important tool the health care sector uses to manage consumption of services, they usually are used in conjunction with nonmonetary tools to achieve greater results. Nonprice methods lower utilization by, among other things, reducing avoidable emergency room and urgent care visits, addressing health care needs before a hospital admission becomes necessary, shortening inpatient stays, and avoiding readmission. Nonprice techniques also can lead to better health care outcomes through disease management, wellness, and better coordination of care. These nonmonetary tools include strategies such as identifying high-risk patients, managing complex cases, keeping chronic diseases under control, and promoting wellness and preventative services. Under the proposed TRICARE–Choice model, health care plans would use a range of both price and nonprice techniques to affect beneficiary behavior and improve health care outcomes.

8. Senator MCCAIN. Commissioners, what safeguards have you included in your recommendations to protect active-duty family members from experiencing higher than usual out-of-pocket costs for healthcare?

Mr. MALDON. The commission modeled the actual amount of out-of-pocket health care costs expended for current Active component (AC) family members. BAHC would cover all health care expenses for the vast majority of AC families. Based on the commission's cost estimates, 85 percent of AC family members would have 100 percent of costs covered; 10 percent would have marginal cost increases; and 5 percent would be eligible for additional assistance via the proposed catastrophic and chronic health care program. For this program, the commission recommended setting aside $50 million annually in a special fund to assist families with catastrophic or chronic health care needs. Because of BAHC and the catastrophic and chronic assistance program, the commission expects net health care costs should be less under TRICARE Choice than under the current TRICARE program for most beneficiaries.

COMMISSARIES

9. Senator MCCAIN. Commissioners, you recommend consolidating the Defense Commissary Agency and the three exchange systems into a single Defense Resale Activity (DeRA), and you recommend retaining the current branding of the three exchange systems with their separate directors. It appears DOD could save more money through additional efficiencies with a single exchange system. Why do you recommend retention of separate exchange systems? How much additional money could be saved with a single exchange system under a DeRA?

Mr. MALDON. The commission's proposal for implementing a consolidated resale organization includes a recommendation to initially retain the current branding and a director for each of the currently branded exchange systems. This recommendation is meant to ease the transition and should not be interpreted as the recommended end state. The intent is to eventually transition to a single organization with a single leadership team, a single headquarters, a single information technology infra-

structure, a single human resources system, a single logistics network, a single support staff, and so forth. Many of the savings estimated in the commission's final report are based on these consolidation efforts.

Although a Defense Resale Activity liaison position is recommended for each of the Services, those positions do not have to be directors. A consolidation of branding may eventually be pursued, but given that this is not expected to be a significant driver of savings it was not identified as a key component of implementation. The commission suggested that branding and organizational structure can be modified over time by the Board of Directors (BOD).

10. Senator MCCAIN. Commissioners, how would your recommendation impact the total amount of funds that the exchange system annually provides for the Services' Morale, Welfare, and Recreation programs?

Mr. MALDON. The commission's proposal to consolidate commissaries and exchanges is expected to have no impact on the contributions to Morale, Welfare, and Recreation (MWR) programs. The commission's Final Report offers multiple ways that the consolidated organization would increase profits through reduced operating costs and increased sales. The Board of Directors (BOD) would determine and direct the best use of those profits, making tradeoffs among the needs of the MWR programs, the benefits of reinvesting in the resale system, and the goal of slowly reducing the burden on taxpayers. It is expected that the BOD would ensure that the MWR programs receive the same priority and resources that they do today.

11. Senator MCCAIN. Commissioners, how would your recommendation affect the current savings percentages that patrons receive when shopping in defense commissaries?

Mr. MALDON. The commission's recommendation is focused on preserving and improving the benefits delivered to servicemembers and their families through commissaries and exchanges. At the core of this recommendation is a statutory guarantee that food would continue to be sold at cost (plus a 5 percent surcharge) in commissaries. The commission strongly recommended that personal health items continue to be sold at cost and be protected through policy. DOD would have the authority to protect other categories of items through policy as well. The consolidated organization would have the option of raising prices on other nonfood items but would have to find a balance between generating profits and maintaining customer loyalty and satisfaction. The prices for these other nonfood items would likely be similar to the discounted, but slightly higher prices found in the exchanges.

12. Senator MCCAIN. Commissioners, in your deliberations, did you consider commercialization of the commissary and exchange systems? In your view, how much money could be saved by out-sourcing the commissary and exchange systems to the private sector?

Mr. MALDON. The commission considered commercialization of the commissaries and met with multiple groups investigating this alternative but did not find this approach to be a promising way of saving money. Initial analysis indicates that commercial grocers cannot afford to sell such a wide selection of groceries at prices similar to those currently offered in commissaries. The commission did not investigate the option of commercializing commissaries and raising prices because doing so would reduce the benefit to servicemembers. The option of subsidizing commercial grocers was rejected for multiple reasons. Advocates of commercialization also expressed concern over the many restrictions currently placed on commissaries to minimize competition with the exchanges.

The commission considered but did not investigate commercialization of exchanges. Initial analysis indicated that the opportunity for savings is greater through the consolidation of commissaries and exchanges.

CHILD CARE

13. Senator MCCAIN. What are the average wait-list times for child care on military bases?

Mr. MALDON. Currently, wait times for military child care programs are not tracked in a reliable way and are not routinely reported. This is why the commission recommended establishing mandatory, standardized monitoring and reporting of child care wait times. In response to a commission data request, the Army indicated that it is experiencing 6 to 9 month wait times for infants and 3- to 5-month wait times for toddlers. The Navy estimated a 3- to 5-month average wait for infants, but cautioned that the methods used to calculate and report this data were

inconsistent and may affect its accuracy. The Air Force does not consistently calculate or track wait times across its child care programs, but was able to provide information for one of its largest overseas bases, indicating wait times up to 7 months for infants. Wait times were not received from the Marine Corps.

14. Senator MCCAIN. What causes the child care shortage on military bases? Is it due to a lack of skilled personnel available to work in child development centers or a lack of physical space available in those centers? Are there any other limiting factors that we should consider?

Mr. MALDON. The root causes of military child care shortages can vary significantly from one location to another. Although Child Development Center (CDC) staffing shortages was the most frequently cited cause, some locations are more substantially affected by shortages in available and properly configured facilities, shortages in available and qualified community-based and home-based providers, or shortages in funding to pay community- and home-based providers.

Based on the limited data available, shortages are consistently more acute for infant and toddler care. As documented in the commission's Final Report, this particular cause for shortage can be the result of financial considerations. The cost of providing services for these younger children is higher and the fees collected from these typically younger parents tend to be lower based on their lower household income. Because military child care fees do not vary with the age of the child as they typically do in private sector child care, the fees paid for older children often subsidize the care for younger children. As a result, the mix of ages that are provided care in military programs may be intentionally favorable for older children, even when the demand is highest for infant and toddler care.

Even though DOD salaries for child care staff are generally competitive, in some areas, finding interested and qualified candidates can still be difficult. In recent years, staffing shortages have often been related to the lengthy process associated with conducting background investigations and making hiring decisions based on the results of those investigations. Forthcoming updates to the policy on background checks for individuals in DOD child care services programs should shorten this process.

In areas where facilities are needed, military construction (MILCON) funding may be required to build new facilities, expand existing facilities, or reconfigure leased facilities. These funds are limited and require a lengthy approval process. The commission's recommendation to reestablish the authority to use operating funds for minor construction projects at child development facilities should improve responsiveness when facilities are needed.

QUESTIONS SUBMITTED BY SENATOR KELLY AYOTTE

COMPENSATION AND RETIREMENT

15. Senator AYOTTE. Commissioners, consistent with section 674 of the National Defense Authorization Act for Fiscal Year 2013, Congress clearly established principles that should govern the commission's recommendations. One of those principles that Congress explicitly identified was the idea of grandfathering those currently serving or already retired. Do the commission's recommendations with respect to retirement pay completely comply with this governing principle set forth by Congress that for those currently serving or retired the "retired pay may not be less than they would have received under the current military compensation and retirement system?"

Mr. MALDON. Yes, retired pay would be completely grandfathered for servicemembers currently serving or retired. Also, consistent with the congressional principles set forth in the National Defense Authorization Act for Fiscal Year 2013, servicemembers and retirees would have the choice to opt in to the recommended blended retirement system. For those who choose not to opt in, their retired pay remains unchanged, and therefore would not be less than they would have received under the current compensation and retirement system.

16. Senator AYOTTE. Commissioners, is it correct that the commission proposes increasing the cost share for medical costs 1 percent each year for 15 years so that the cost share grows from 5 percent to 20 percent?

Mr. MALDON. Yes, the commission did propose a gradual increase in cost shares for retirees not yet eligible for Medicare. Currently, the premium for TRICARE Prime for non-Medicare-eligible retirees is approximately 5 percent of the cost of the program. When the TRICARE program went into effect in 1996, the cost share for

retirees younger than 65 was 27 percent of total health care costs. The premium was not indexed for inflation. The commission wanted to increase access to high-valued commercial insurance products, while providing recognition of service. For this reason, the ramp stopped at 20 percent and did not continue to 27 percent.

17. Senator AYOTTE. Commissioners, under the commission's proposal, would that significant cost share growth impact those currently retired, as well as those currently serving when they retire?

Mr. MALDON. The change in cost-share percentage would take place in successive years after the recommendation is implemented. Anyone who was retired at that time or who retired before the 20 percent threshold is reached would experience a 1 percent increase in cost share per year. Even at the end of the designated 15-year implementation period, the cost share would be a smaller percentage than the 27 percent cost share that retirees paid when TRICARE was first created and substantially less than retired government civilians pay.

RECRUITMENT AND RETENTION

18. Senator AYOTTE. Commissioners, did your model consider the impact retirement and health care proposals in an individual or in an aggregate manner—in terms of their impact on recruitment and retention?

Mr. MALDON. Recruitment and retention were considered both individually and in aggregate. For example, the retention modeling conducted by RAND showed the recommended blended retirement system would maintain the Services' current force profiles. The commission's survey showed that servicemembers strongly prefer better choice and access in health care plans. The recommended TRICARE Choice health care plan would therefore be expected to improve recruitment and retention.

These individual effects were then aggregated to ensure the holistic package of reforms would maintain recruiting, retention, and the All-Volunteer Force. For example, the Post-9/11 GI Bill and retirement recommendations work collectively to provide midcareer retention incentives that would help meet retention goals as follows:

- Providing Post-9/11 GI Bill transferability at 10 years of service (YOS), with 2 additional YOS, would enable the Services to increase retention to the critical 12-year point in a military career.
- Awarding continuation pay at 12 YOS, with an additional commitment of 4 YOS, would bring servicemembers to the 16-year point, at which the draw of the defined benefit (DB) encourages retention.
- Maintaining the majority of the DB retirement plan, would encourage servicemembers to stay 20 years or more.
- Maintaining flexibility in special and incentive pays, including continuation pay, would provide additional opportunities for retention incentives in cases where those listed above are not sufficient to retain key personnel.

SERVICE BEYOND 20 YEARS

19. Senator AYOTTE. Commissioners, under your proposal, does the Thrift Savings Plan (TSP) government match end at 20 YOS?

Mr. MALDON. The commission recommended matching contributions end at 20 YOS because retention modeling shows the Services' current force profiles would be sustained after 20 YOS without TSP matching. The commission testified to Congress, however, that matching after 20 YOS is an issue Congress should explore to ensure the recommended retirement plan maintains lifetime earnings of servicemembers.

20. Senator AYOTTE. Commissioners, under the commission's proposal, is it correct to say that the defined benefit for retirement at 20 years would decline from 50 percent of base pay to 40 percent of base pay?

Mr. MALDON. Although the recommended blended retirement system would maintain the majority of the current defined benefit, retired pay would decline from 50 percent to 40 percent of basic pay for servicemembers who retire with 20 YOS. These servicemembers would also have government-sponsored TSP assets and would receive a new continuation pay at 12 YOS. Using conservative estimates, this combination of blended retirement system benefits is projected to generate greater lifetime earnings for servicemembers who retire with 20 YOS.

21. Senator AYOTTE. Commissioners, if a servicemember served for 30 years, would the reduction of the defined benefit decline from 75 percent to 60 percent?

Mr. MALDON. Although the defined benefit for a servicemember who retires with 30 YOS would decline from 75 percent to 60 percent of basic pay, servicemembers would also receive government-sponsored TSP assets and a new continuation pay at 12 YOS.

22. Senator AYOTTE. Commissioners, when we look at these two proposals together—ending the TSP match at 20 years and reducing the defined benefit so significantly for those who serve 30 years—wouldn't that create a reinforcing disincentive discouraging service beyond 20 years?

Mr. MALDON. Retention modeling shows that the Services' current force profiles would be maintained after 20 YOS without TSP matching after 20 YOS. It is for this reason the commission did not recommend matching after 20 YOS.

Matching after 20 YOS would increase retention after 20 YOS, but would also approximately maintain lifetime earnings for servicemembers who retire with 30 YOS relative to their lifetime earnings under the current retirement system. For this reason, the commission testified to Congress that matching after 20 YOS is an issue Congress should explore to ensure the recommended retirement plan maintains lifetime earnings of servicemembers.

QUESTIONS SUBMITTED BY SENATOR DAN SULLIVAN

GENERAL

23. Senator SULLIVAN. Commissioners, there is a quantitative difference between the service of our military members and other Federal employees; benefits and healthcare should reflect this disparity. Assuming Congress implements new changes like the recommendations the commission is suggesting, does the issue of grandfathering play a role?

Mr. MALDON. Under the commission's recommendation, retired pay is grandfathered for currently serving servicemembers and retirees. Benefits from the Montgomery GI Bill and REAP are also grandfathered. Several of the commission's recommendations improve or maintain current benefits (e.g., Commissary savings, financial literacy training, and child care availability) or provide new options without changes to the current benefit (e.g., Survivor Benefit Plan). For these recommendations, grandfathering would not be necessary. Although it is not feasible to grandfather the current TRICARE program under the commission's recommendation, TRICARE Choice is designed to be separate from the Federal Employee Health Benefit Plan precisely because of the qualitative differences between servicemembers and other Federal employees.

24. Senator SULLIVAN. Commissioners, if so, how do you plan to implement these changes to programs and services currently and previously used by servicemembers while applying new standards?

Mr. MALDON. Retired pay is grandfathered for currently serving and retired servicemembers by the commission's recommendation. For grandfathered servicemembers, their retied pay would continue to be calculated by the Defense Finance and Accounting Service (DFAS) consistent with the current retirement system. For servicemembers who are under the proposed retirement system, DFAS would simply calculate retired pay using a different retired pay multiplier. In both cases, DFAS would use existing processes to disburse retired pay to servicemembers.

The commission's recommendations also grandfather benefits under the Montgomery GI Bill and the Reserve Education Assistance Program (REAP) for servicemembers currently enrolled in those programs. The commission's recommendations stop new enrollments in those programs in favor of the Post-9/11 GI Bill.

EDUCATION

25. Senator SULLIVAN. Commissioners, one of the best things the military does for its servicemembers and veterans is provide educational assistance and training in the form of the G.I. Bill. I have seen firsthand how the benefits of this program have changed the lives of the marines in my command, as well as their dependents. What impacts—if any—would alterations to the existing program have on those that are currently benefiting as well as those troops that hope to utilize it in the future?

Mr. MALDON. The commission shares the belief that education benefits are very valuable to our servicemembers, with the potential to substantially change their

lives. Based on this appreciation for the value of the education benefits, multiple recommendations were made. Sunsetting the Montgomery GI Bill (MGIB) and the REAP shifts servicemembers to the Post-9/11 GI Bill, which is generally more generous and supportive of their academic goals. Those currently using MGIB and REAP benefits would be grandfathered and the rules concerning reimbursement of MGIB fees would not change.

For the Post-9/11 GI Bill, the recommendations to require 10 YOS before being eligible for transfer and the recommendation to sunset the living stipend for dependents using transferred benefits are both intended to increase the use of the Post-9/11 GI Bill for the education of servicemembers, which was the original and primary intent of this benefit. A secondary effect of these changes is that they slow the rapidly growing cost of transferred benefits, which threatens the fiscal sustainability of the benefit for all.

The recommendations related to data collection and reporting are all designed to inform those who set education policy, manage these programs, and evaluate their effectiveness. The expected effect for servicemembers and their families is a gradual improvement of these benefits.

QUESTIONS SUBMITTED BY SENATOR MIKE LEE

IMPLEMENTATION COSTS

26. Senator LEE. Commissioners, the commission report states that the recommendations, if implemented, would reduce Federal outlays by $11 billion over the next 5 fiscal years and by $12.6 billion annually by fiscal year 2053. Can you talk about the assumptions that were made in developing these estimates, and what factors, such as increased life expectancy, higher than assumed costs of healthcare, or smaller than assumed economic growth could impact those savings estimates?

Mr. MALDON. The commission estimates its modernization recommendations, if enacted, would substantially reduce DOD budgetary costs and Federal spending over time. All Commission estimates of savings and cost-avoidance are expressed in fiscal year 2016 constant dollars, and therefore account for expected inflation. These estimates have been calculated using an appropriate set of assumptions, specific to each recommendation. For a complete list of assumption related to each individual recommendation, please refer to Appendix D, "Cost Data," (p. 255) of the commission's Final Report.

All budget estimates, including those made by the commission, can be affected by changes in economic conditions. Many factors, including shifts in economic performance and political decisions may affect the realization of earlier estimates. The commission's approach to developing estimates, however, has been fact based, rooted in commonly accepted financial theory and modeling, and informed by relevant historical data and trends. This approach serves to maximize the utility of commission estimates as a key element in the careful consideration of the commission's recommendations.

27. Senator LEE. Commissioners, is it the commission's assessment that all of these recommendations could be implemented immediately with minimal negative impact on the Armed Forces, or do you believe some of the reforms could be either phased in or introduced through pilot programs in order to assess impact and utility for servicemembers?

Mr. MALDON. The commission's recommendations include multiyear implementation timelines to ensure the necessary preparations are completed before implementation of the new programs. Importantly, these implementation steps include financial literacy training for servicemembers prior to implementation.

28. Senator LEE. Commissioners, in your cost analysis, does the commission take into consideration the overhead costs of implementing these recommendations, such as the cost of introducing and managing Thrift Savings Plans across the force or creating and managing new a healthcare insurance system for all military families and retirees? How much time would it take to implement such recommendations?

Mr. MALDON. The commission's cost estimates include estimates of implementation costs for each of the recommendations. Cost estimates also include administrative costs such as managing the new health insurance system, which would actually be a savings relative to the cost of administering the current TRICARE program.

The commission's recommendations include multiyear implementation timelines to ensure the necessary preparations are completed before implementation of the

new programs. It is important to note, these implementation steps include financial literacy training for servicemembers prior to implementation.

29. Senator LEE. Commissioners, in Recommendation 6, the commission recommends that non-Medicare eligible retirees have access to the same military health benefit program as military families at a cost that gradually increase over time. If this recommendation were enacted, would these retirees be paying more for health benefits than they are under the current system?

Mr. MALDON. In the first year of TRICARE Choice implementation, when the premium cost share is set at 5 percent, the range of premiums available to working age retirees would be similar to the cost of TRICARE Prime today and total costs of health care to retirees would be similar to what they are today. Fifteen years after implementation, when the premium cost share for working age retirees grows to 20 percent after a 1 percent per year increase, the premiums would be higher than TRICARE Prime is today and the total costs of health care to retirees would be higher. The commission's best estimate of the average cost to a retiree user of TRICARE today is about $2,000. This includes the premium for TRICARE Prime, the average costs of extra programs like TRICARE Young Adult and TRICARE Retiree Dental Program, and their out-of-pocket costs for co-pays and deductibles. Under TRICARE Choice when the premium cost share has risen to 20 percent, the total average cost is estimated at $3,600.

30. Senator LEE. Commissioners, the modeling used in Recommendation 1 indicated that the new retirement system proposed would maintain the Services' current force profiles. Can you explain in more depth how the modeling for this particular recommendation worked, and if "current force profiles" refers to both a quantitative and qualitative assessment of the current force?

Mr. MALDON. RAND's Dynamic Retention Model (DRM) can analyze structural changes in military compensation. In the commission's case the DRM was used to analyze proposed changes to the retirement system. Recent applications of the DRM include analyses for the 9th, 10th, and 11th Quadrennial Reviews of Military Compensation (QRMCs), as well as analysis in support of the recent DOD review of military compensation reform. The model's capability has steadily increased. For example, new, faster estimation and simulation programs have been written; costing has been refined; and the model can now show retention and cost effects in both the steady state and the year-by-year transition to the steady state.

The model is based on a mathematical model of individual decision-making over the life cycle in a world with uncertainty and in which servicemembers have heterogeneous preferences (tastes) for active and for Reserve service. The parameters of this model are empirically estimated with data on military careers drawn from administrative data files. The model begins with service in the active Component (AC), and individuals make a stay/leave decision in each year. Those who leave the AC take a civilian job and, at the same time, choose whether to participate in the Reserve component (RC). The decision of whether to participate in the RC is made in each year, and the individual can move in to or out of the RC from year to year. More specifically, a reservist can choose to remain in the RC or to leave it to be a civilian, and a civilian can choose to enter the RC or remain a civilian.

The quantitative and qualitative effects of a reform are both important. The commission focused on the quantitative aspects of maintaining the baseline force profile, judged in terms of the overall force strength and experience mix (the number of personnel by year of service). In the course of analyses, the model confirmed the retirement recommendation can maintain the baseline force profile.

With respect to maintaining the quality of the force, the commission thought about the accession of personnel who are judged to be high quality based on information available at the time of accession, and the retention of personnel who are revealed to be high quality through their performance in the military. Under the retirement recommendation there would be little if any change in accession requirements for enlisted and officers. Further, an important aspect of a compensation system is the incentives it provides for individuals to exert effort and to reveal their ability, and for harder working, more able individuals to remain in the force. The retirement recommendation, along with the continuation of the current promotion system (including criteria for promotion as well as time-in-grade constraints), maintains these incentives. Because both the accession requirements and the incentives for effort and ability are essentially the same under the recommendation as at baseline, the commission foresees a continuation of the baseline recruiting and resourcing policy, which is adaptive to the economic environment and the personnel needs of DOD, to be sufficient to sustain the quality of personnel entering the military, and the quality of the retained force to be sustained.

31. Senator LEE. Commissioners, Recommendation 13 advocates for eliminating the Family Subsistence Supplemental Allowance (FSSA) domestically and replacing that assistance with the Department of Agriculture's Supplemental Nutrition Assistant Program (SNAP). The report states that only 285 servicemembers in fiscal year 2013 used FSSA assistance, in large part because SNAP creates fewer social stigmas for recipient families. Did the commission estimate how many servicemembers, in addition to those already on FSSA, would start using SNAP if FSSA was eliminated domestically? What cost increase would be incurred by the Department of Agriculture?

Mr. MALDON. The commission found no reason to predict that the number of servicemembers who would start using SNAP if FSSA were eliminated domestically would be substantially larger than those who are already receiving FSSA benefits. No evidence was found to suggest that other servicemembers, who are not currently receiving FSSA benefits, would apply for SNAP as a result of this change. Note that only 75 percent of the 285 servicemembers receiving FSSA benefits in 2013 were stationed in the United States. Based on this percentage, we project Department of Agriculture would incur a cost increase of approximately $1 million as a result of this recommendation.

QUESTIONS SUBMITTED BY SENATOR JEANNE SHAHEEN

PREPARATION OF THE RECOMMENDATIONS

32. Senator SHAHEEN. Commissioners, how confident is the commission that a majority of our men and women who are serving and have served support the commission's recommended reforms?

Mr. MALDON. The commission recommendations were very much informed by discussions with many servicemembers, family members, and retirees. The commission and staff visited 55 military installations, conducted 8 public hearings, 8 town hall meetings, and many sensing sessions. Through these discussions, the commission heard from the Force very clear preferences for additional choice, access, and flexibility in compensation programs.

These preferences were reinforced by the commission's survey, in which more than 150,000 servicemembers and retirees indicated their preferences for various features and levels of compensation programs. The sources showed that servicemembers, particularly those lower in rank, prefer TSP matching and auto-enrollment, as well as greater access and choice in health benefit. Servicemembers also expressed preference for a wider network of civilian health care providers, coupled with maintaining access to health care in MTFs.

The commission's recommendations deliver additional choice, access, and value to servicemembers. The retirement recommendation extends benefits from 17 percent to 75 percent of the force, while protecting lifetime earnings of servicemembers who retire with 20 YOS. The health benefit recommendation, TRICARE Choice, provides much more choice of, and access to, health care at lower costs to the majority of Active Duty servicemembers' families. TRICARE Choice also would provide a substantially better health benefit to Reserve component members, which would, in turn, improve medical readiness. Several of the other recommendations improve or sustain benefits for servicemembers, such as enhanced financial literacy training, greater support for exceptional family members, and maintained grocery discounts at DOD commissaries.

COST SAVINGS

33. Senator SHAHEEN. Commissioners, the commission's report details substantial anticipated cost savings after full implementation. How long does the commission assess it would take to realize full savings for the more significant recommendations and how substantial does the commission expect the upfront transition costs to be?

Mr. MALDON. Savings estimates for the more significant recommendations are provided below. Upfront transition costs are included in each table as "implementation costs."

Retirement:

The commission estimates that its retirement recommendation would reduce DOD budgetary costs by $6.1 billion during fiscal year 2016–fiscal year 2020 and result in annual steady-state savings of $1.9 billion by fiscal year 2046. Federal outlays would increase by $7.2 billion during fiscal year 2016–fiscal year 2020, but decrease by $4.7 billion annually starting in fiscal year 2053. In this estimate, DOD budg-

etary reductions are the net result of decreases in DOD's normal cost payments (NCPs) into the Military Retirement Fund (MRF), increases in automatic and matching contributions for the servicemembers' Thrift Savings Plan (TSP) accounts, increases in Continuation Pay (CP) for midcareer retention bonuses, and minor funding effects from associated changes in the disability retirement system. Reductions in Government outlays are the net result of changes in payments from the MRF to retired servicemembers for defined benefit (DB) annuities and increases in TSP contributions and CP. Outlays are higher in the near years because Government contributions to servicemembers' TSP accounts begin immediately upon implementation of the blended retirement system, yet reductions in DB payments are realized over time as servicemembers retire under the blended retirement system.

$ Millions	2016	2017	2018	2019	2020	2053	2054	2055
Implementation	154	-	-	-	-	-	-	-
DoD Budget	(990)	(1,185)	(1,238)	(1,297)	(1,357)	(1,894)	(1,894)	(1,894)
Federal Outlays	522	1,564	1,645	1,719	1,792	(4,666)	(4,666)	(4,666)
Federal Outlays (Then-Year $)	522	1,579	1,684	1,791	1,934	(14,853)	(15,346)	(15,855)

Health Benefit:

The commission estimates that its health benefit recommendation would reduce DOD budgetary costs by $26.5 billion during fiscal year 2016–fiscal year 2020 and result in annual steady-state savings of $6.7 billion by fiscal year 2033. Federal outlays would decrease by $3.9 billion during fiscal year 2016–fiscal year 2020 and $3.2 billion annually starting in fiscal year 2033. In this estimate, these reductions are the net result of decreases in costs for providing the health care benefits, decreased cost shares for some beneficiaries, and increased cost shares for other beneficiaries. The decline in DOD budgetary costs also results from accrual funding non-Medicare-eligible retiree health benefit costs. In developing this estimate, the commission worked closely with the Office of Personnel Management (OPM); procured the services of the IDA to conduct health benefit pricing analyses; and relied upon data from OPM related to beneficiary demographics, choices, and health care plans in the FEHBP.[2]

$ Millions	2016	2017	2018	2019	2020	2053	2054	2055
Implementation	100	100	-	-	-	-	-	-
DoD Budget	(3,900)	(3,900)	(6,173)	(6,234)	(6,292)	(6,666)	(6,666)	(6,666)
Federal Outlays	100	100	(1,242)	(1,374)	(1,507)	(3,229)	(3,229)	(3,229)
Federal Outlays (Then-Year $)	100	104	(1,341)	(1,541)	(1,756)	(13,295)	(13,813)	(14,352)

Commissaries and Exchanges:

The commission estimates that its recommendation related to DOD commissaries and exchanges would decrease DOD budgetary costs and Federal outlays by $1.0 billion during fiscal year 2016–fiscal year 2020 and result in annual steady-state savings of $515 million by fiscal year 2021. In this estimate, these reductions result from a series of efficiencies, primarily in consolidating back office functions, logistics systems, and staffing. Numerous studies have projected that both financial savings and nonfinancial benefits can be achieved through a consolidation of the three exchanges.[3] Including the commissaries in such a consolidation increases potential efficiencies. The recommendation proposes a new defense resale executive team that would be responsible for evaluating, selecting, and implementing these potential ef-

[2] The Office of Personnel Management provided support for the commission's analysis; however, such support does not represent an endorsement of, or suggest any opinion on, the report, study, or recommendations.

[3] Office of the Assistant Secretary of Defense (Force Management and Personnel), DOD Study of the Military Exchange System, September 7, 1990. See also Logistics Management Institute, Report PL110R1, Toward a More Efficient Military Exchange System, July 1991. See also Systems Research and Applications (SRA) International, Integrated Exchange System Task Force Analysis, 1996. See also PricewaterhouseCoopers, Joint Exchange Due Diligence, 1999, See also Unified Exchange Task Force, Modified Business Case Analysis for Military Exchange Shared Services, August 26, 2005.

ficiencies. Realized costs and savings therefore depend upon the set of efficiencies selected for implementation.

$ Millions	2016	2017	2018	2019	2020	2053	2054	2055
Implementation	58	93	106	120	89	-	-	-
DoD Budget	17	(78)	(184)	(313)	(426)	(515)	(515)	(515)
Federal Outlays	17	(78)	(184)	(313)	(426)	(515)	(515)	(515)
Federal Outlays (Then-Year $)	17	(79)	(192)	(332)	(461)	(1,071)	(1,092)	(1,114)

Education Benefits:

The commission estimates that its recommendation related to servicemember education would reduce DOD budgetary costs by $87 million during fiscal year 2016–fiscal year 2020 and result in annual steady-state savings of $17 million upon implementation. Federal outlays would decrease by $15.6 billion during fiscal year 2016–fiscal year 2020 and $4.8 billion annually starting in fiscal year 2025. In this estimate, changes in DOD budgetary costs result from elimination of unemployment benefits for veterans who are using Post-9/11 GI Bill benefits. Reductions in Government outlays primarily accrue to VA, which funds the Montgomery GI Bill-Active Duty, REAP, and the Post-9/11 GI Bill.

$ Millions	2016	2017	2018	2019	2020	2053	2054	2055
Implementation	-	-	-	-	-	-	-	-
DoD Budget	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)
VA Budget	120	(2,126)	(4,667)	(4,478)	(4,542)	(4,757)	(4,757)	(4,757)
Treasury Budget	48	42	36	30	24	-	-	-
Federal Outlays	151	(2,102)	(4,649)	(4,466)	(4,535)	(4,774)	(4,774)	(4,774)
Federal Outlays (Then-Year $)	151	(2,144)	(4,836)	(4,739)	(4,909)	(9,929)	(10,127)	(10,329)

34. Senator SHAHEEN. Commissioners, in the case of the proposed reform to servicemember education benefits, how much of the savings come from the phase-out of the housing stipend for dependents and how much come from raising the service requirement to 10 years?

Mr. MALDON. Changing the eligibility requirement for transferring Post-9/11 GI Bill benefits from 6 YOS, with a 4-year additional commitment, to 10 YOS, with a 2-year additional commitment, results in a steady state savings of $1.6 billion annually. Phase out of the housing stipend for dependents accounts for $3.2 billion of the savings.

HEALTHCARE RECOMMENDATIONS

35. Senator SHAHEEN. Commissioners, does the commission anticipate any additional burden for servicemembers obtaining healthcare through the existing system but having their dependents rely on a distinct system?

Mr. MALDON. The commission does not anticipate any additional burden in obtaining healthcare under the recommended plan. Currently, servicemembers receive care through their units or MTFs, and their families receive care through the MTF or the network of civilian providers in their TRICARE region. Under the commission's plan, there would be no change in how servicemembers receive their care, and their families would still receive care either at the MTF or through civilian providers within their selected health plan's network. The major difference would be in how the health care benefit is provided.

36. Senator SHAHEEN. Commissioners, I understand active-duty families could continue to access MTFs as a venue of care. How would this work?

Mr. MALDON. Under the commission's recommendation, insurance plans operating within the geographic area around an MTF would include the MTF in their provider networks. Beneficiaries could choose to receive care at the MTF in the same way they might choose to receive care from other providers. To provide beneficiaries incentive to seek care at MTFs, copayments at MTFs would be lower than those for civilian providers.

37. Senator SHAHEEN. Commissioners, the commission recommends the DOD implement a robust medication therapy management (MTM) program. Pharmacist-provided MTM has been shown to improve patient health while at the same time reducing costs, so increasing access to these services makes sense. How should DOD implement a robust MTM program, and what role will retail community pharmacies play?

Mr. MALDON. The commission recommended DOD's TRICARE pharmacy benefit should remain in place but proposed some important adjustments. DOD would manage the pharmacy program and continue to use the DOD formulary and Federal Supply Schedule pricing. In keeping with the commission's objectives to increase choice, access, and flexibility in health care, beneficiaries using TRICARE Choice, as well as Medicare-eligible retirees using TRICARE for Life, would obtain medications from retail, mail-order, and MTF settings. DOD would retain the authority to contract with a third-party administrator to perform functions such as managing the retail pharmacy network, distributing mail-order medications, and processing claims. The commission recommended such contracts require a pharmacy benefits manager to integrate pharmaceutical treatment with health care and to implement robust MTM, including the integration of MTM activities at retail pharmacies.

QUESTIONS SUBMITTED BY SENATOR MAZIE K. HIRONO

CHOICE OF HEALTHCARE PLANS

38. Senator HIRONO. Commissioners, when considering a transition to a new choice of commercial health plans, did the commission take into account the complexity and potential disruption dependents may face each time a Permeant Change of Station (PCS) occurs?

Mr. MALDON. The commission did consider these concerns. With any permanent change of station move, military families face changes, and health care is no exception. When they move, families need to select new health care providers whether they receive care through the current TRICARE plan or through TRICARE Choice. In terms of their health insurance, families would have the option to select national, rather than regional, insurance plans, which would preclude the need to change insurance companies in a new locality. That said, because health care pricing is regional in nature, families might find that going with a less expensive regional plan better suites their needs. The commission's financial literacy recommendation would provide families support for understanding how to choose a plan that best suits their needs.

39. Senator HIRONO. Commissioners, what plan will be in place to ensure that individuals who can ill afford a disruption in care will not be materially harmed by having to wait to enroll in a new health plan until after they PCS?

Mr. MALDON. Coverage would be seamless from location to location. Beneficiaries would not be removed from their old policy before they were added to their new one. If they needed care before they arrived at their new duty station and their new policy took effect, they could use out-of-network benefits on their old policy if needed. Beneficiaries on national plans would not have to change plans unless they wanted to do so, and would be able to use physicians from their plan's national network.

COST OF PRIVATE MEDICAL CARE FOR PREGNANCY, CHILDBIRTH, AND INFANT CARE

40. Senator HIRONO. Commissioners, I appreciate your response to my question regarding moving the most common procedures performed at MTFs, childbirth and newborn care, to the private sector. What I am still concerned by is: what financial cost can be anticipated for both the dependent and the military when these services are moved to commercial health plans for treatment outside of MTFs?

Mr. MALDON. Costs for maternity and childbirth care would depend on the insurance plan beneficiaries choose. As a point of comparison, the 2015 Government Employee Health Association plan (both the High and Standard options) covers maternity and delivery costs at 100 percent with no deductible when care is provided in network. For the 2015 Federal Blue Cross/Blue Shield (BC/BS) policies, maternity and delivery costs are also covered at 100 percent when care is by preferred providers. There is no deductible for the BC/BS Standard plan; however, on the BC/BS Basic plan beneficiaries are responsible for $175 of inpatient services per admission. Because the commercial insurance carriers would assume risk associated with maternity costs, there would be no associated costs for the military.

FINANCIAL LITERACY

41. Senator HIRONO. Commissioners, did the commission evaluate the feasibility for implementing the robust frequency of financial literacy training you've recommended within the current training schedule of military units?

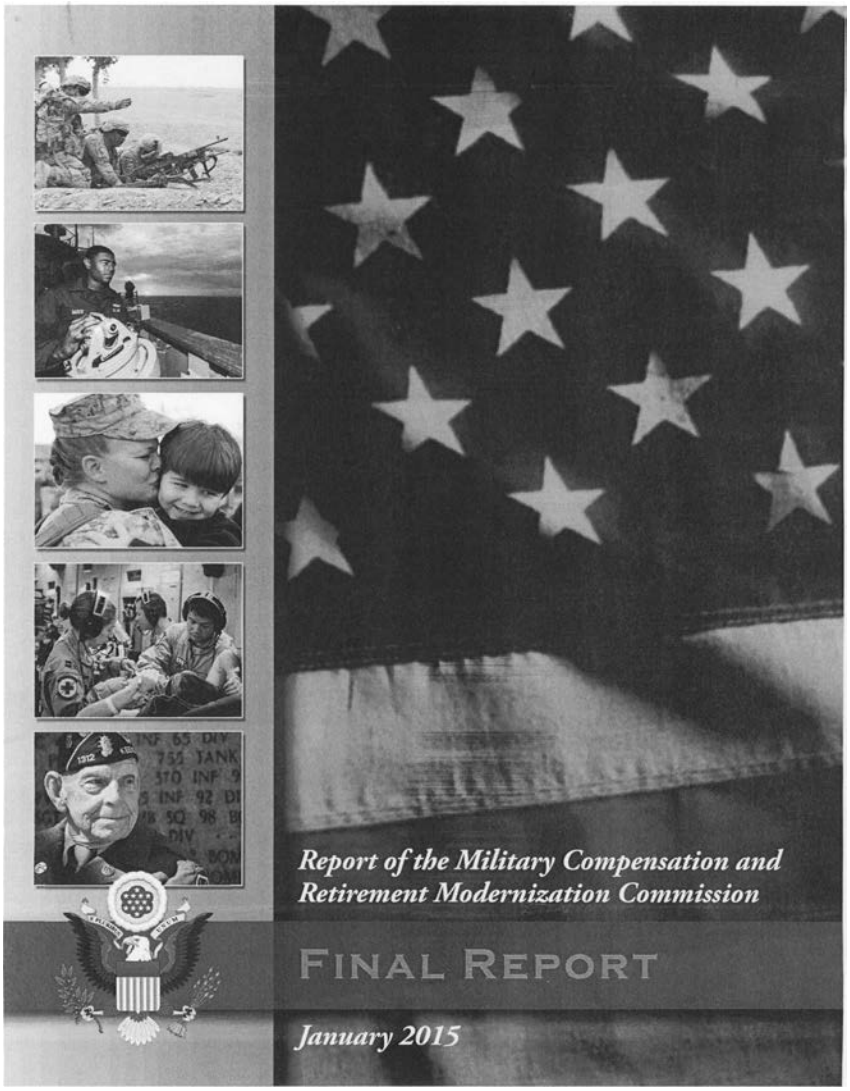
Mr. MALDON. The commission's recommendation to increase the frequency and strengthen the content of financial literacy training was made after a thorough review of financial training policies, schedules, and content for Active and Reserve component members of all Services. Servicemembers and their families, as well as organizations devoted to increasing financial literacy, such as the Consumer Financial Protection Bureau, also provided input to the commission. Training, provided at more appropriate career and life milestones, would be beneficial to servicemembers, their families, and the Services. Military leaders have expressed concern regarding the amount of stress experienced by servicemembers in financial difficulty and the amount of time spent counseling those experiencing difficulties. Increased financial literacy training would provide proactive, vice reactive, effort and contribute to improved readiness.

42. Senator HIRONO. Commissioners, for many military families financial decisions are often made by members and their partners and, in some instances, solely by the partner if the member is deployed. Did the commission consider financial literacy programs for military families as a whole or only individual servicemember training?

Mr. MALDON. The commission believes encouraging financial literacy within the military family unit best supports financial readiness for the Uniformed Services. According to the Blue Star Families' 2013 Military Family Lifestyle Survey, 82 percent of servicemembers indicated their spouse should be included in financial readiness courses. The commission believes in the importance of financial literacy training for military families, and servicemembers would like to have their spouses included in financial training; however, it is difficult for the Services to mandate training for family members As such, the commission believes that financial literacy should be open to family members, but participation should not be mandatory.

[Appendixes A through O follow:]

APPENDIX A—FINAL REPORT OF THE MILITARY COMPENSATION AND RETIREMENT MODERNIZATION COMMISSION



MILITARY COMPENSATION AND RETIREMENT MODERNIZATION COMMISSION

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The Honorable Stephen E. Buyer
The Honorable Dov S. Zakheim
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GENERAL COUNSEL
Ms. Elizabeth DiVecchio Berrigan, U.S. Army, Retired

Report of the Military Compensation and Retirement Modernization Commission

FINAL REPORT

January 29, 2015

COMMISSIONERS' LETTER

January 29, 2015

We are honored to submit to the President and the Congress of the United States the enclosed recommendations to modernize the Uniformed Services' (the Services) compensation and retirement system. We are confident these recommendations will ensure that the Services can maintain the most professional All-Volunteer Force possible, during both peacetime and wartime. Our confidence stems from our unwavering commitment to the interests of Service members and their families. In fact, our recommendations, which all members of this Commission unanimously support, are designed to protect both the overall value of the current benefits package and the quality of life of the 21st century Force—those who serve, those who have served, and the families that support them.

The Services' compensation system provides the Nation with an All-Volunteer Force without peer. This fact has been proven during the last 42 years and decisively reinforced during the last 13 years of war. After 42 years of an All-Volunteer Force, the President and the Congress agreed that it was time to study in detail the pay and benefits of the Services.

The Services require flexible, modern, and relevant compensation tools to continue to recruit and retain the high-quality men and women needed to protect and defend our Nation into the future. Consequently, the Services must be empowered with flexible personnel-management tools to shape the force as security needs change. Our proposed reforms provide additional, yet fiscally sustainable, options for Service personnel managers to design and manage a balanced force. Pursuant to the National Defense Authorization Act for Fiscal Year 2013, our recommendations are limited to compensation, retirement, and benefits modernization issues.

Our volunteer Service members are the strength of our military, and it is our continuous duty and obligation to ensure that the Services are properly resourced. National security is a Constitutional priority, and fiscal challenges facing our Nation cannot be solved by focusing solely on the military. Necessary resources include compensation and benefits for our Service members and their families, who also deserve long-term stability. It is our view that the current era of ongoing Service budget reductions and uncertainty is adversely affecting readiness and is increasing risks in our Nation's ability to meet growing national security requirements.

Our recommendations improve the efficiency and sustainability of compensation benefits, and they enhance the overall value of those benefits. Our military pay and retirement recommendations grandfather the retirement pay of existing retirees and those currently in the Force. They also maintain the majority of the existing retirement

structure, which is an important retention tool, while allowing members of a younger, more mobile work force to begin investing in their own future. To better meet the needs of our Reserve Component, we recommend streamlining Reserve Component duty statuses. We further recommend an increase in Service members' opportunity for coverage in the Survivor Benefit Plan.

In considering the military health benefit, we focused on sustaining medical readiness by recommending a new readiness command, supporting elements, and framework for maintaining clinical skills. This system would ensure that today's medically ready force would continue to provide the best possible combat care. Our recommendations also improve access, choice, and continuity of care for family members, Reserve Component members, and retirees. These recommendations maintain or reduce the cost of health care for the vast majority of families of active-duty Service members and establish a fund to lessen the burden of chronic and catastrophic conditions. We recommend ways to increase collaboration and resource sharing between the Departments of Defense and Veterans Affairs. The net result of these recommendations is a modernized health care system that should benefit our Service members, veterans, retirees, and family members far into the 21st century.

Our recommendations related to quality of life focus on enhancing benefits for Service members and their families, while improving cost-effectiveness. We recognize the historically transformative power of the GI Bill. In particular, the Post-9/11 GI Bill has been effective in improving the education level of numerous Service members, veterans, retirees, and their families. Our recommendations improve the sustainability of these education benefits.

Many Service members, retirees, and their families articulated the importance of Department of Defense commissaries and exchanges. Our findings reflect their view, and we recommend ways to maintain these benefits at lower costs. We propose several enhanced benefits for Service members and their families, including additional coverage for exceptional family members, budgeting for child care facilities, academic monitoring of dependents in public schools, nutritional assistance coverage, access to space-available travel, and Service member transition support.

We thank all who have supported the efforts of the Commission, especially the many Service members, veterans, retirees, and family members who engaged with the Commission directly. The Commission has received, via in-person and survey responses, feedback from more than 100,000 active-duty Service members, Reserve Component members, veterans, retirees, and their families. We have met with more than 150 Government agencies, military advocates, research institutions, and related interest groups. We are confident that the recommendations put forward in this report offer an improved compensation and benefits package.

Ensuring Service members and their families are cared for is a sacred responsibility of a grateful Nation. Being part of the public discussion regarding how we, as a Nation, modernize their benefits and fulfill this obligation has been our great honor. We are confident that implementing these reforms will move the All-Volunteer Force toward a future that is in the best interest of our Nation's security and that can be fiscally sustained. We believe, for those who serve and have served to uphold the military's

highest traditions and heritage, and the families that support them, the Federal Government must fulfill its obligation with its enduring commitment in war and in peace.

Respectfully submitted,

Hon. Alphonso Maldon, Jr.
Chairman

Hon. Larry L. Pressler

Gen. Peter W. Chiarelli, USA (Ret.)

Hon. Stephen E. Buyer

ADM Edmund P. Giambastiani, USN (Ret.)

Hon. Dov S. Zakheim

Hon. J. Robert Kerrey

Mr. Michael R. Higgins

Hon. Christopher Carney

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LIST OF ACRONYMS

ACRONYM	DEFINITION
AAFES	Army Air Force Exchange System
AAP	American Academy of Pediatrics
ABA	Applied Behavior Analysis
AC	Active Component
ADFM	Active-Duty Family Member
AIP	Assignment Incentive Pay
APF	Appropriated Funds
ACSI	American Customer Satisfaction Index
BAG	Budget Activity Group
BAH	Basic Allowance for Housing
BAHC	Basic Allowance for Health Care
BAS	Basic Allowance for Subsistence
BEC	Benefits Executive Committee
BOD	Board of Directors
CABG	Coronary Artery Bypass Grafting
CAHPS	Consumer Assessment of Healthcare Providers and Systems
CBO	Congressional Budget Office
CCHHS	Cook County Health and Hospital System
CDC	Child Development Center
CDP	Child Development Program
CEB	Cooperative Efforts Board
CFR	Code of Federal Regulations
CLS	Combat Life Saver
CMAC	CHAMPUS Maximum Allowable Charge
CP	Continuation Pay
C-STARS	Centers for Sustainment of Trauma and Readiness Skills (USAF)
DACMC	Defense Advisory Committee on Military Compensation
DB	Defined Benefit
DC	Defined Contribution
DeCA	Defense Commissary Agency

ACRONYM	DEFINITION
DEERS	Defense Enrollment Eligibility Reporting System
DeRA	Defense Resale Activity
DFAS	Defense Finance and Accounting Service
DHA	Defense Health Agency
DIC	Dependency and Indemnity Compensation
DMDC	Defense Manpower Data Center
DoDI	DoD Instruction
DoDTR	Department of Defense Trauma Registry
DOL	U.S. Department of Labor
DRM	Dynamic Retention Model (RAND)
DVOP	Disabled Veterans' Outreach Program
EBT	Electronic Benefit Transfer
ECHO	Extended Care Health Option
EHHC	ECHO Home Health Care
EHR	Electronic Health Record
EFM	Exceptional Family Member
EFMP	Exceptional Family Member Program
EMC	Essential Medical Capability
ERISA	Employee Retirement Income Security Act
ESEA	Elementary and Secondary Education Act
FCC	Family Child Care
FDA	U.S. Food and Drug Administration
FEHBP	Federal Employees Health Benefits Program
FFS	Fee-For-Service
FHCC	Federal Health Care Center
FMR	Financial Management Regulation
FMWG	Financial Management Working Group
FOC	Final Operating Capabilities
FSSA	Family Subsistence Supplemental Allowance
GAO	U.S. Government Accountability Office
HCBS	Home and Community-Based Services
HCSDB	Health Care Survey of DoD Beneficiaries
HEC	Health Executive Committee

ACRONYM	DEFINITION
HEDIS	Healthcare Effectiveness Data and Information Set
HMO	Health Maintenance Organization
IC3	Interagency Care Coordination Committee
IDA	Institute for Defense Analyses
iEHR	Integrated Electronic Health Record
IOC	Initial Operating Capabilities
IPO	Interagency Program Office
IT	Information Technology
JEC	Joint Executive Committee
JIF	Joint Incentive Fund
JMROC	Joint Medical Readiness Oversight Council
JRC	Joint Readiness Command
JSP	Joint Strategic Plan
JVSG	Jobs for Veterans State Grant
LES	Leave and Earnings Statement
LMI	Logistics Management Institute
LVER	Local Veterans' Employment Representative
MAP	Medical Advisory Panel
MCCS	Marine Corps Community Services
MCRMC	Military Compensation and Retirement Modernization Commission
MCSC	Managed Care Support Contract
MCX	Marine Corps Exchange
MERHCF	Medicare-Eligible Retiree Health Care Fund
MGIB	Montgomery GI Bill
MGIB-AD	Montgomery GI Bill Active Duty
MGIB-SR	Montgomery GI Bill Selected Reserve
MHS	Military Health System
MILCON	Military Construction
MILPERS	Military Personnel
MRF	Military Retirement Fund
MSO	Military Service Organization
MTF	Military Treatment Facility
MWR	Morale, Welfare and Recreation

ACRONYM	DEFINITION
NAF	Nonappropriated Funds
NCO	Non-Commissioned Officer
NCP	Normal Cost Payments
NDAA	National Defense Authorization Act
NEX	Navy Exchange
NEXCOM	Navy Exchange Command
NEXMART	Navy Exchange Market
O&M	Operations and Maintenance
OACT	Office of the Actuary (DoD)
OEF	Operation ENDURING FREEDOM
OIF	Operation IRAQI FREEDOM
OOP	Out-of-Pocket
OPM	U.S. Office of Personnel Management
PCM	Primary Care Manager
PFM	Personal Financial Management
PPBE	Planning, Programming, Budget, and Execution
PPO	Preferred Provider Organization
PTC	Pharmacy and Therapeutics Committee
PV	Perceived Value
PwC	PricewaterhouseCoopers
RC	Reserve Component
REAP	Reserve Education Assistance Program
RHPO	Regional Health Planning Organization
RI	Relative Importance
RSA	Resource Sharing Agreement
RVU	Relative Value Unit
SAC	School-Age Care
SBA	Small Business Administration
SBP	Survivor Benefit Plan
SDT	Second Destination Transportation
SMC	Specialized Military Condition
SNAP	Supplemental Nutrition Assistance Program (USDA)
SOCOM	Special Operations Command

ACRONYM	DEFINITION
STC	Shock Trauma Center
TA	Tuition Assistance
TAMP	Transition Assistance Management Program
TCCC	Tactical Combat Casualty Care
TFI	Total Family Income
TMA	TRICARE Management Activity
TRANSCOM	Transportation Command
TSP	Thrift Savings Plan
UETF	Unified Exchange Task Force
USDA	U.S. Department of Agriculture
USFHP	U.S. Family Health Plan
VA	U.S. Department of Veterans Affairs
VANF	VA National Formulary
VHA	Veterans Health Administration
VISN	Veterans Integrated Service Network
VistA	Veterans Health Information Systems and Technology Architecture
VSO	Veterans Service Organization
WIC	Women, Infants and Children (USDA)
YOS	Years of Service

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1. EXECUTIVE SUMMARY

The Military Compensation and Retirement Modernization Commission was established by the National Defense Authorization Act (NDAA) for FY 2013 to provide the President of the United States and the Congress specific recommendations to modernize pay and benefits of the Uniformed Services.[1] The Commission's legislative mandate, coming after 42 years with an All-Volunteer Force and 13 years of war, was to provide recommendations that:

- *ensure the long-term viability of the All-Volunteer Force by sustaining the required human resources of that force during all levels of conflict and economic conditions;*
- *enable the quality of life for members of the Armed Forces and the other Uniformed Services and their families in a manner that fosters successful recruitment, retention, and careers for members of the Armed Forces and the other Uniformed Services; and*
- *modernize and achieve fiscal sustainability for the compensation and retirement systems for the Armed Forces and the other Uniformed Services for the 21st century.*[2]

The President issued a set of eight guiding principles to the Commission.[3] This report addresses those mandates and principles, discusses in detail the areas where reform is required, states the considerations that should guide reform, and offers specific recommendations to solve the problems that were identified. For example, the Commission recommends moving from a purely defined benefit to a blended defined benefit and defined contribution retirement system. It proposes a new command dedicated to the oversight of joint readiness, especially readiness of the medical force. It recommends improving access, choice, and value of the health benefit for active-duty families, Reserve Component members, and retirees.[4] It also outlines ways to sustain Service-member education programs and strengthen numerous family support programs. These recommendations respond to the preferences of a new generation of Service members by improving choice and flexibility within their compensation package. The Commission made a conscious decision that its focus would not be budget driven. Nevertheless, these recommendations offer efficiencies that substantially reduce government expenditures. This approach ensures pragmatic

[1] Throughout this report, "Services" refers to the Uniformed Services, which include the Army, Marine Corps, Navy, Air Force, Coast Guard, and the Commissioned Officer Corps of the National Oceanographic and Atmospheric Administration and U.S. Public Health Service (see Armed Forces, 10 U.S.C. § 101(a)(5)). References to the Military Services or Armed Forces include the Army, Marine Corps, Navy, Air Force, and Coast Guard (see Armed Forces, 10 U.S.C. § 101(a)(4)).

[2] National Defense Authorization Act for FY 2013, Pub. L. No. 112-239 subtitle H, 126 Stat. 1632, 1787 (2013) (as amended by National Defense Authorization Act for FY 2014, Pub. L. No. 113-66, § 1095(b), 127 Stat. 672, 879 (2013)).

[3] The President's guiding principles can be found in Section 4. Government Printing Office, *Principles for Modernizing the Military Compensation and Retirement Systems: Message from the President of the United States*, accessed November 21, 2014, http://www.gpo.gov/fdsys/pkg/CDOC-113hdoc60/html/CDOC-113hdoc60.htm.

[4] A retiree is any person who has served at least 20 years in a Service and has been permanently released from duty or a person who has been released from duty before 20 years of service and declared by the Service to be retired because of medical condition or disability. *See* Armed Forces, 10 U.S.C. §§ 3911, 3914 (Army); Armed Forces, 10 U.S.C. §§ 6323, 6330 (Navy); Armed Forces, 10 U.S.C. §§ 8911, 8914 (Air Force); Coast Guard, 14 U.S.C. §§ 291, 355 (Coast Guard); Navigation and Navigable Waters, 33 U.S.C. § 3044 (NOAA Commissioned Officer Corps); The Public Health and Welfare, 42 U.S.C. § 212 (U.S. Public Health Service Commissioned Corps).

fiscal sustainability. Although there may be additional opportunities to identify efficiencies in personnel and force structure programs, the NDAA for FY 2013 limited the Commission's review to compensation modernization issues.

The profound and constant change that has affected our Nation since the inception of the All-Volunteer Force, coupled with an unprecedented 13 years of war, offer a compelling backdrop for compensation reform. The Commissioners—comprising more than 140 years of military service experience among them—have completed a comprehensive review and analysis of the current benefits of Uniformed Service members. The Commissioners concluded that several key features of the compensation system continue to meet the needs of the All-Volunteer Force. The basic pay table provides simplicity, equity, and transparency, and the targeted changes to the pay tables in 2000-2001 proved valuable during the 13 years of war. The system of allowances is appropriate and strikes the correct balance between Service member compensation and financial assistance for expenses. TRICARE for Life continues to ensure high-quality health care for retired Service members across the country.

The recommendations in this report are informed by the valuable insights of a broad range of Service members, veterans,[5] retirees, and their families. The Commission surveyed more than 1.5 million Service members and retirees. It developed an ongoing working relationship with more than 30 military and veteran service organizations. It also received input from numerous research institutions, private firms, and not-for-profit organizations. The Commission and its staff reviewed nearly 350 distinct benefits across the U.S. Government, including programs administered by departments of Defense, Veteran Affairs, Homeland Security, Treasury, Health and Human Services, Education, Labor, and others. The *Military Compensation and Retirement Modernization Commission Interim Report*,[6] issued in June 2014, documents these benefits in detail.

This final report focuses on reforming compensation programs to improve Service members' choice of and access to benefits. The recommendations contained within it enhance the flexibility of the compensation system for the Services, which have the responsibility to recruit and retain balanced forces and for Service members. The recommendations improve the cost-effectiveness of delivering high-quality benefits. Within this framework, the report evaluates each program in light of key changes in the cultural, generational, and technological landscape since the advent of the All-Volunteer Force. Though many programs continue to serve their intended purpose, several are duplicative, and many should be more responsive to the needs of the contemporary workforce from which the Services draw their personnel. Based on these findings, this report offers 15 recommendations that have one thing in common: these recommendations were formulated with the benefit to the Service members, and the families who support them, as a top priority.

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[5] A veteran is defined as a "person who served in the active military, naval, or air service, and who was discharged or released therefrom under conditions other than dishonorable." Veterans' Benefits, 38 U.S.C. § 101(2).
[6] The *Report of the Military Compensation and Retirement Modernization Commission: Interim Report* is available for download at http://www.mcrmc.gov.

PAY AND RETIREMENT

1. Help more Service members save for retirement earlier in their careers, leverage the retention power of traditional Uniformed Service retirement, and give the Services greater flexibility to retain quality people in demanding career fields

The current Uniformed Service retirement system is a useful retention tool for midcareer Service members, but does not provide retirement savings to the overwhelming majority of Service members. Under the current system, 83 percent of the enlisted men and women serving our Nation will never benefit from a traditional 20-year Uniformed Service retirement.[7] The Services' retirement system should be restructured to provide retirement benefits to more than one million current Service members who would otherwise leave service without any Government-sponsored retirement savings. Doing so eases the transition of Service members to civilian life by providing them with retirement savings similar to those of their private-sector peers. This recommendation blends the recruiting benefits of a modern 401(k)-type plan, with the retention benefits of the current retirement annuity, lump sum career continuation pay, and retention bonuses paid at important career milestones in the lives of Service members. Modeling has demonstrated that such a blended system would maintain the Services' current force profiles. It also provides additional flexibilities to the Services to adjust force profiles if desired to maintain a balanced force. It would also sustain, and may improve retention and increase lifetime earnings of retirees.

2. Provide more options for Service members to protect their pay for their survivors

The Survivor Benefit Plan (SBP) has steadily become more attractive as a low cost way to provide lifetime benefits to retirees' survivors. The Commission received many Service member complaints about SBP because of the associated offset from VA Dependency and Indemnity Compensation (DIC). To help address this concern, a new SBP option should be implemented for which Service members would fully fund SBP costs but would no longer be subject to the DIC offset. The existing SBP program with the DIC offset should be maintained for Service members who want to retain lower-cost coverage.

3. Promote Service members' financial literacy

The lack of choice in current pay and benefit programs results in complacency and insufficient knowledge among Service members with regard to managing their personal finances. According to the 2013 Blue Star Families Annual Lifestyle Survey, only 12 percent of Service member respondents indicated they received financial information from their command or installation.[8] DoD should increase the frequency and strengthen the content of financial literacy training. This enhancement is especially important because the Commission's recommendations on retirement and health care require new financial decisions to be made by Service members. Improved

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[7] Department of Defense, *Valuation of the Military Retirement System; September 30, 2012*, 24, accessed December 10, 2014, http://actuary.defense.gov/Portals/15/Documents/MRF_ValRpt2_2012.pdf.
[8] Blue Star Families, *2013 Military Family Lifestyle Survey, Comprehensive Report*, accessed December 10, 2014, http://www.mcrmc.gov/public/docs/report/pr/BlueStarFamilies_2013MilitaryFamilyLifestyleSurvey_Comprehensive_Report_May2013_p34_FinLit_FN_12-13-24.pdf.

financial literacy would also assist Service members from being exploited by predatory lenders and other financial manipulators.

4. Increase efficiency within Reserve Component status system

Despite the Services' operational dependence on the Reserve Component (RC) during the recent conflicts in Iraq and Afghanistan, the current RC status system "is complex, aligns poorly to current training and mission support requirements, fosters inconsistencies in compensation, and complicates rather than supports effective budgeting."[9] The RC status system causes members to experience disruptions in pay and benefits as they transition among different duty statuses.[10] Mobilization difficulties also impede operational commanders who need to employ RC personnel. There are 30 unique statuses under which RC members can be called to duty. The number of duty statuses should be streamlined to just six to benefit Service members and ease the Services' management and operational use of RC forces.

HEALTH BENEFITS

5. Ensure Service members receive the best possible combat casualty care

The vast majority of Service members who were wounded on the battlefield were able to return home from the wars in Iraq and Afghanistan. Many of them are continuing to serve our Nation because of the exceptional care they received from our military health care providers in the field. This medical expertise, honed during more than a decade of saving lives in combat, must be maintained and further improved whenever possible. Evidence shows it may be difficult to sustain these combat medical capabilities with the typical mix of cases seen in the military health care system during peacetime. The Secretary of Defense, together with the Chairman, Joint Chiefs of Staff, should seek to enhance dedicated oversight of medical readiness through the creation of a joint medical component within a newly established joint readiness command, as well as a medical directorate in the Joint Staff. The Congress and DoD should define and measure essential medical capabilities (EMCs) to promote and maintain critical capabilities within the military medical force. DoD should be granted additional authorities to attract EMC-related cases into military treatment facilities to best support their mission as a training platform for military medical personnel.

6. Increase access, choice, and value of health care for active-duty family members, Reserve Component members, and retirees

TRICARE often limits access to care by confining beneficiaries to a lengthy and frustrating process for obtaining specialty care and to weak networks of civilian health care providers. The adverse effect of weak provider networks is even more profound for beneficiaries living in remote locations, including RC members. The Congress should replace the current health care program with a new system that offers beneficiaries a selection of commercial insurance plans. Costs of these plans should be offset for active-duty families with a new Basic Allowance for Health Care (BAHC) and a fund to lessen the burden of chronic and catastrophic conditions. Mobilized RC members

[9] Office of the Assistant Secretary of Defense for Reserve Affairs, *Review of Reserve Component Contributions to National Defense, December 2002*, 77.
[10] Dolfini-Reed, Michelle and Darlene E. Stafford, *Identifying Duty Status Reforms Needed to Support an Operational Reserve*, CRM D0021656.A2 (Alexandria, VA: CNA, 2010), 1.

should also receive BAHC to cover the costs of a plan from the new system or of their existing insurance plan. All members of the RC should be able to purchase a plan from the DoD program at varying cost shares. Non-Medicare-eligible retirees should continue to have full access to the military health benefit program at cost contributions that gradually increase over many years but remain lower than the average Federal civilian employee cost share as recognition of their military service. Medicare-eligible retirees should continue to have access to the current TRICARE for Life program to supplement Medicare benefits.

7. Improve support for Service members' dependents with special needs

Although the Services provide substantial support for exceptional family members through various programs, State programs offer differing and additional services. Unfortunately, Service members often lose access to these state-based programs when they move between duty stations because of long waiting lists in some states. To provide continuous support services, benefits offered through the military's Extended Care Health Option program should be expanded to include services provided through state Medicaid waiver programs.

8. Improve collaboration between Departments of Defense and Veterans Affairs

DoD and VA expend tremendous national resources to ensure that Service members and veterans receive world-class health care. Yet there remain substantial opportunities for enterprisewide collaboration through standardization, elimination of barriers, and implementation of best practices. Differences in drug formularies for transitioning Service members continue to disrupt effective care. Several DoD–VA resource sharing projects have generated efficiencies for both organizations, but these efforts are mostly local, isolated arrangements. Medical information cannot yet be shared seamlessly between DoD and VA, hindering effective care for Service members and veterans. To resolve these issues, the current DoD–VA Joint Executive Committee should be strengthened with additional authorities and responsibilities to standardize and enforce collaboration between the organizations.

QUALITY OF LIFE PROGRAMS

9. Protect both access to and savings at DoD commissaries and exchanges

DoD commissaries and exchanges provide valued financial benefits to Service members and should be maintained. According to the 2013 Living Patterns Survey conducted by Defense Manpower Data Center, more than 90 percent of active-duty Service members use commissaries and exchanges.[11] Although there are many differences between commissaries and exchanges, the Commission found these two activities perform similar missions, for similar patrons, with similar staff, using similar processes. DoD commissaries and exchanges should be consolidated to leverage these similarities. The merger of many back-end operation and support functions, alignment of incentives and policies, and consistent implementation of best practices should achieve significant efficiencies while maintaining the value of the benefits for Service members and their families.

[11] Defense Manpower Data Center, *Living Patterns Survey, Tabulation of Responses*,18, http://www.mcrmc.gov/public/docs/report/qol/2013_DMDC_LivingPatternSurvey_Commissary_Usage.pdf .

10. Improve access to child care on military installations

Service members' operational readiness is directly related to their ability to be at work. Access to quality, convenient, and affordable childcare is an important part of readiness. Yet the Commission found that demand for military child care often exceeds availability, resulting in more than 11,000 children on waiting lists as of September 2014.[12] The Congress should reestablish the authority to use operating funds for minor construction projects up to $15 million for expanding or modifying child development program facilities serving children up to 12 years of age.[13] DoD should standardize reporting and monitoring of child care wait times across all types of military child care facilities. DoD should also streamline child care personnel policies to help ensure proper staffing levels.

11. Safeguard education benefits for Service members

The Military Services have repeatedly emphasized the importance of using education benefits as recruiting and retention tools. Ensuring the robustness of these programs is one of the best ways to guarantee the future of the All-Volunteer Force. There are duplicative and inefficient education benefits that should be eliminated or streamlined to improve the sustainability of the overall education benefits program. The Montgomery GI Bill Active Duty and the Reserve Education Assistance Program should be sunset in favor of the Post-9/11 GI Bill. Service members who reach 10 years of service and commit to another 2 years should be allowed to transfer their Post-9/11 GI Bill benefits to dependents. The housing stipend of the Post-9/11 GI Bill should be sunset for dependents, as should unemployment compensation for anyone receiving a housing stipend.

12. Better prepare Service members for transition to civilian life

Transitioning from the Military Services to civilian life is more challenging than it needs to be. Unemployment is still a challenge facing far too many of our veterans, especially for veterans aged 18 to 24, who had higher unemployment rates in 2013 than nonveterans of the same age group (21.4 percent and 14.3 percent, respectively).[14] To better support transition and veteran employment, DoD should require mandatory participation in the Transition GPS education track. The Department of Labor should permit state departments of labor to work directly with state VA offices to coordinate administration of the Jobs for Veterans State Grant program. The Congress should require One-Stop Career Center employees to attend Transition GPS classes to develop personal connections between transitioning veterans and One-Stop Career Centers.

13. Ensure Service members receive financial assistance to cover nutritional needs

The Commission recognized that some Service members, particularly those with large families, will continue to need financial help to purchase nutritious food for their families. The Department of Agriculture's Supplemental Nutrition Assistance Program

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[12] Department of Defense and Services Child Development Program Managers, briefing to MCRMC, August 8, 2014. DoD, e-mail to MCRMC Staff, September 9, 2014.

[13] *See* National Defense Authorization Act for FY 2006, Pub. L. No. 109-163, § 2810 (2006). The authority originally expired in 2007, but was extended until 2009, when it was allowed to expire. *See* National Defense Authorization Act for FY 2008, Pub. L. No. 110-181, § 2809 (2008). *See also* Armed Forces, 10 U.S.C. § 2805.

[14] U.S. Department of Labor, Bureau of Labor Statistics, *Economic News Release, Table 2A: Employment Status of Persons 18 Years and Over by Veteran Status, Age, and Period of Service, 2013 Annual Averages*, accessed September 24, 2014, http://www.bls.gov/news.release/vet.t02A.htm.

(SNAP), better known as food stamps, should be the means by which they receive that help in the United States. The Family Subsistence Supplemental Allowance (FSSA), the Military Services' alternative to SNAP, served only 285 Service members in FY 2013,[15] in large part because SNAP is more generous and creates fewer potential social stigmas for recipient families. FSSA should be retained for Service members in overseas locations where SNAP assistance is unavailable, but should be sunset in the U.S. and other locations where SNAP is available.

14. Expand Space-Available travel to more families of Service members
Dependents of Service members who are deployed for more than 120 days can fly, unaccompanied, on military aircraft when there is space available. But shorter deployments are becoming routine for some. The quality of life of Service members' dependents should be improved by providing access to unaccompanied travel on military aircraft for deployments of 30 days or more.

15. Measure how the challenges of military life affect children's school work
Children of active-duty Service members are not being identified separately in nationwide reporting of student performance. These children experience unique stresses associated with parental deployments and frequent relocations that can adversely affect academic performance. A military dependent student identifier should be implemented through Elementary and Secondary Education Act reporting to identify students who are children of active-duty Service members. This identifier would enable consistent reporting on the academic performance of military dependents, as well as identification of the support required to meet their needs.

[15] Director of Military Compensation, Office of Personnel and Readiness, e-mail to MCRMC, August 5, 2014.

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2. GENERAL CONCLUSIONS

The Commission drew six overarching conclusions regarding the current and future state of Uniformed Service compensation. These conclusions reflect general trends and overall findings that were observed during the past 18 months of data gathering and analysis. They serve as a core framework for the specific recommendations for modernization that follow in this report.

Core Compensation Structure. Though individual compensation programs would benefit from modernization, as detailed in the following sections of this report, the overall structure of the current compensation system is fundamentally sound and does not require sweeping overhaul. A combination of pay, health care, retirement, and ancillary benefits is normal for large organizations. Thus, reforms to the current compensation package should be judicious, targeted improvements that "do no harm" to the bulk of the system. Changes should focus on improving value and outcomes through the modernization of specific programs no longer meeting the full requirements of the 21st century All-Volunteer Force.

The basic pay table should be retained in its current form. It has proved an effective cornerstone of the compensation system for decades. The pay table, coupled with the Services' personnel management policies, provides strong performance incentives. It is simple, transparent, and equitable, thereby contributing to cohesion within the Force. It should continue to be supplemented with various special and incentive pays with which the Services can adjust compensation levels based on changing economic conditions or labor market dynamics. Similarly, the Reserve Component (RC) pay system should remain in its current form, as it effectively compensated RC members during 13 years of war. It also strikes an appropriate balance between drill weekend compensation and ancillary responsibilities for which RC members may not be fully reimbursed.[1]

In addition, the system of allowances (e.g., Basic Allowance for Housing, Basic Allowance for Subsistence) should continue to supplement basic and specials pays. The Commission examined the allowance system in detail, considering features such as the tax-free nature of some allowances and the fairness and equity of differing allowance rates. The Commission also investigated whether eliminating the allowance system would improve the overall transparency of the compensation system. As currently designed, however, the allowance system strikes an appropriate compromise between representing compensation to Service members and assistance for their living expenses.

[1] The Commission reviewed policies associated with RC members in a nonpay status who drill for points for retirement purposes, particularly those of the Navy (BUPERSINST 1001.39F) because it represents many of these RC members. According to Navy Reserve manpower subject matter experts, most of these Navy RC members reached high-year tenure without accumulating 20 years of qualifying service for retirement purposes. Nonpay drilling allows these members to reach retirement eligibility requirements. Some members voluntarily request to be in a nonpay drilling status to accommodate their individual needs. Others are unable to find a vacant billet for which they would receive both pay and drill points, typically because they were promoted out of a paid billet during a time when promotions were not connected to vacancies at the next pay grade. Navy RC promotion policies have changed to generally prevent promotions independent of paid billets at the next pay grade. The Commission urges the Services to communicate policy concerning nonpay drilling to RC members earlier in their careers and to align RC manpower and personnel levels to further reduce nonpay drilling.

Health care benefits have been, and will continue to be, an important element of compensation. Health care should continue to be offered across the life-cycle of a military member. Active-duty Service members and their families should receive access to a health care benefit, as should eligible members of the RC. Retired Service members should also have access to health care, with TRICARE For Life to supplement Medicare benefits. These benefits should be modernized to provide beneficiaries with additional choice, access, and value. The military health system needs to be modernized with the best business practices to ensure the very best in access and delivery for an efficient and effective health care system.

Quality of life benefits play a valuable role in Service member compensation. They are designed to mitigate many of the effects on Service members and their families associated with frequent moves, assignments to difficult locations far away from extended family and other support networks, deployments of family members, demanding work schedules, and other military lifestyle challenges. Though the Commission explored several strategies to modernize quality of life programs, including monetizing all "in-kind" benefits, it recognizes these programs provide peace of mind with respect to Service members' families. Providing the actual benefit instead of additional cash compensation ensures important needs are met. Although this report contains recommendations related to some quality of life programs, the overall suite of benefits does not require sweeping reform.

Advantages of Targeted Modernization. Modernization of compensation programs would provide new substantial benefits to Service members while bending the Government's cost curve. The remainder of this report details recommendations to improve benefits and fiscal sustainability. Key examples of the advantages of modernization include:

1. Modernized Retirement System
   - maintains the Services' existing recruiting and retention levels, promoting the continuance of the All-Volunteer Force
   - provides new Government-sponsored retirement assets to the 83 percent of Service members who currently leave the Force without vesting for a defined benefit annuity
   - increases the expected value of Government-sponsored retirement assets for Service members who retire after reaching 20 years of service
   - reduces annual DoD budgetary costs and Federal outlays, in FY 2016 constant dollars, by $1.9 billion and $4.7 billion, respectively, after full implementation

2. Modernized Readiness Oversight
   - establishes a four-star Command to oversee joint readiness, especially the readiness of the military medical force
   - defines essential medical capabilities and clinical skill standards that must be sustained during peacetime to prepare for the next conflict
   - improves the workload and case mix in military hospitals to provide additional opportunities for military personnel to maintain clinical skills

3. Modernized Health Benefit
   - improves access and choice in health care by allowing Service members and retirees to select from a menu of commercial health care plans

- eliminates the existing TRICARE referral process, which is a source of substantial frustration to Service members and their families
- provides active-duty Service members with a new Basic Allowance for Health Care (BAHC) to offset costs for commercial health care, plus an additional program to further offset costs of chronic or catastrophic conditions
- reduces annual DoD budgetary costs and Federal outlays, in FY 2016 constant dollars, by $6.7 billion and $3.2 billion, respectively, after full implementation

4. Modernized Service Member Education Benefits
   - maintains the Post-9/11 GI Bill while eliminating redundant education programs
   - aligns transferability of education benefits to mid-career retention milestones
   - reduces annual Federal outlays, in FY 2016 constant dollars, by $4.8 billion after full implementation

Modernization Without Compensation Reductions. By focusing modernization reforms on the structure of various benefits, fiscal sustainability can be improved without reducing the value of benefits to Service members. The recommendations in this report will result in substantial reductions in Federal spending. They also generally improve the value of the compensation system for Service members. Table 1 presents values from a military Leave and Earnings Statement (LES), including estimated changes from the recommendations detailed throughout the remainder of this report. In each LES line item, this Service member would receive the same or additional benefits. A new BAHC offsets expected out-of-pocket costs for a commercial health care plan, including an automatic allotment to pay the health care plan premium. Government contributions on behalf of Service members into the Thrift Savings Plan (TSP) would provide new retirement savings for the entire Force while compensating Service members for a reduced defined benefit (DB) annuity. BAHC and TSP contributions would provide additional Federal tax advantages to Service members. The increase in end-of-month pay shown on the LES would compensate for insurance costs and DB reductions, and Service members would not lose take-home pay as a result of the modernization recommendations in this report.

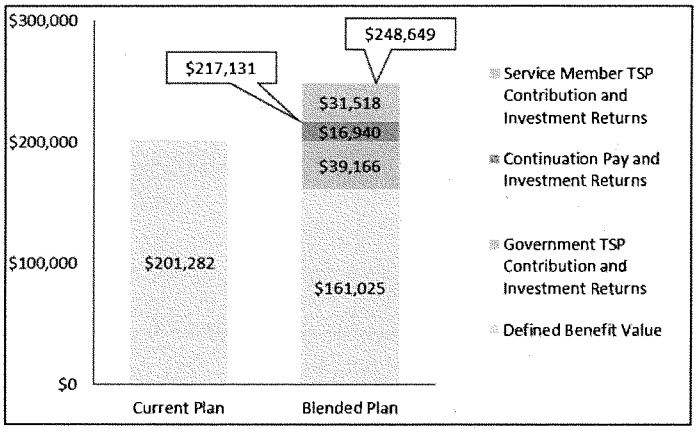
Table 1. Changes to a Leave and Earnings Statement of an Active-Duty E5 with 10 YOS[2]

	CURRENT COMPENSATION SYSTEM	ALTERNATIVE COMPENSATION SYSTEM	CHANGES IN COMPENSATION
ENTITLEMENTS			
Basic Pay	$3,076.20	$3,076.20	$0.00
Basic Allowance for Subsistence	$357.55	$357.55	$0.00
Basic Allowance for Housing	$1,152.00	$1,152.00	$0.00
Basic Allowance for Health Care	$0.00	$305.00	$305.00
Thrift Savings Plan, Government Automatic Contribution	$0.00	$30.76	$30.76
Thrift Savings Plan, Government Matching Contributions	$0.00	$92.29	$92.29
TOTAL ENTITLEMENTS	$4,585.75	$5,013.80	$428.05
DEDUCTIONS			
Standard Deductions	$844.33	$844.33	$0.00
Thrift Savings Plan, Member Contributions	$92.29	$92.29	$0.00
TOTAL DEDUCTIONS	$936.62	$936.62	$0.00
ALLOTMENTS			
TRICARE Dental	$32.89	$32.89	$0.00
TRICARE Choice Health Plan	$0.00	$236.91	$236.91
TOTAL ALLOTMENTS	$32.89	$269.80	$236.91
MONTHLY PAY	$3,616.24	$3,807.38	$191.14

Modernizing the retirement system can also provide additional value for Service members. Take, for example, a blended retirement system that features a modified version of the current DB, a defined contribution (DC) component through TSP, and lump-sum continuation pay awarded at 12 years of service (YOS). The DC component of this blended plan would provide new retirement benefits to the 83 percent of the Force that would otherwise leave service without Government-sponsored retirement savings. It would allow Service members over time to increase retirement savings through compounding investment returns.[3] Service members who contribute to TSP would reduce their taxable income because contributions would be invested as pretax dollars, which would allow Service members to retain more income. The combination of DB and DC assets, plus continuation pay, would be expected to exceed the value of the current DB-only retirement system for those who reach 20 YOS. As shown in Figure 1, the net present value of the current DB annuity for a typical enlisted Service member who retires after 20 YOS would be $201,282. Under a blended retirement system in which the Service member contributes 3 percent of their basic pay to the DC plan, Government-sponsored retirement assets at 20 YOS would total $217,131, an increase of 8 percent. The Service member's own DC contributions would be valued at another $31,518, providing total retirement assets valued at $248,649. The value of Government-sponsored retirement assets for officers would be expected to increase by 10 percent.

[2] Assumes an active-duty E5 who has dependents, has 10 YOS, is stationed at Fort Bragg, and is in a 15 percent Federal tax bracket. Alternative compensation system values are estimated assuming implementation of the Commission's recommendations and assuming that the Service member will contribute 3 percent of basic pay into the Thrift Savings Plan and will participate in the proposed health benefit program (i.e., TRICARE Choice).
[3] See Recommendation 1 of this report for details of TSP.

Figure 1. Retirement Assets of a Retiring Active-Duty E7, Current vs. Blended Retirement Plans[4]

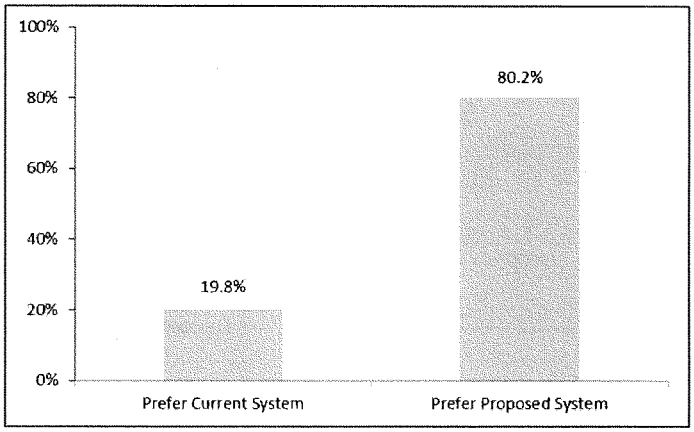


Results from the Commission's survey show that Service members recognize the increased benefit of alternative compensation systems. As shown in Figure 2, active-duty survey respondents indicated that they would prefer the modernized compensation system detailed in this report over the status quo by a margin of 4 to 1.[5] While being more preferable, the proposed compensation system improves fiscal sustainability, providing a win-win solution for Service members and the Services.

[4] The Commission reviewed policies associated with RC members in a nonpay status who drill for points for retirement purposes, particularly those of the Navy (BUPERSINST 1001.39F) because it represents many of these RC members. According to Navy Reserve manpower subject matter experts, most of these Navy RC members reached high-year tenure without accumulating 20 years of qualifying service for retirement purposes. Nonpay drilling allows these members to reach retirement eligibility requirements. Some members voluntarily request to be in a nonpay drilling status to accommodate their individual needs. Others are unable to find a vacant billet for which they would receive both pay and drill points, typically because they were promoted out of a paid billet during a time when promotions were not connected to vacancies at the next pay grade. Navy RC promotion policies have changed to generally prevent promotions independent of paid billets at the next pay grade. The Commission urges the Services to communicate policy concerning nonpay drilling to RC members earlier in their careers and to align RC manpower and personnel levels to further reduce nonpay drilling. Service members would receive CP to promote midcareer retention. This comparison of retirement assets assumes CP is saved and invested for retirement.

[5] The figure represents a close approximation of the preferences of the Commission's recommendations, since the survey did not address all compensation recommendations of the Commission.

Figure 2. Percent of Active-Duty Service Members Who Prefer the Current or Proposed Compensation System



Member Choice, Access, and Quality. A fundamental mismatch has developed between the conditions and requirements of a 21st century workforce and some Uniformed Service compensation programs. The modern civilian workforce prioritizes characteristics such as choice, access, and flexibility over rigid compensation structures. While military life is different from that of civilians, the Services necessarily recruit and retain Service members from broader labor markets. If the Uniformed Services compensation system does not adjust to the preferences of labor market participants, the Services will be at a growing competitive disadvantage for attracting our Nation's best workers.

Substantial changes in demographics and society are not reflected in key aspects of the current compensation system, much of which dates back to 1973 and the birth of the All-Volunteer Force or earlier. Similarly, demographic changes in the Force, such as the increase in women and Service members with children, reflect trends that are not accurately incorporated into the current compensation and benefits package. In the 21st century, prospective recruits and current Service members considering whether to transition to the civilian sector are better educated and more technologically savvy than in previous decades.[6] Some current programs simply comprise piecemeal updates or adjustments to long-standing programs and do not fully reflect the changing preferences of both the Force and society.

The unprecedented operational use of the RC during the last 13 years of war also has implications for the compensation system. In particular, mobilization of the RC highlighted the need for higher levels of medical and dental readiness during peacetime. Recurrent deployments of RC members also showed that processing RC orders could be substantially more efficient. The Commission's recommendations offer

[6] MCRMC, *Report of the Military Compensation and Retirement Modernization Commission: Interim Report*, June 2014, 248-267, http://www.mcrmc.gov/index.php/reports.

additional health and dental care choices to RC members and streamline RC duty statuses. These improvements would smooth the movement of the RC between operational and strategic postures. Nonetheless, DoD should determine the future posture of the RC and ensure compensation resources are aligned to support the National Guard and Reserves. Such alignment would better meet the needs of Service members and positively affect recruitment, retention, and readiness.

Service Flexibility. The Services, as well as Service members, would benefit from additional flexibility in the compensation system. Changing national security requirements will necessarily demand adjustments to manpower requirements. Compensation requirements will vary with changes in the national economy or labor markets. Service personnel managers therefore need a compensation system with which they can easily adjust compensation to obtain the appropriate mix of personnel skills and experience levels. In particular, the Services may benefit from the authority to vary retirement options for different career fields. The retirement system is instrumental in determining the shape of the Services' force profiles.[7] Yet the current one-size-fits-all retirement system does not address fundamental differences in the skill sets, training requirements, and career paths of various professions. For example, doctors, linguists, and cyber personnel have skills that are expensive to acquire and improve over time. The Force may benefit from a flexible retirement system that incentivizes them to remain in service longer than other occupational specialties.

The Services would also benefit from additional flexibility in the management of the Military Health System. A coordinated, strategic framework is required to sustain and, whenever possible, improve upon the tremendous medical skills that were accumulated during the last 13 years of war. New command oversight, coupled with authorities and tools to enhance medical training opportunities during peacetime, would prevent the potential atrophy of operational medical skills and expertise that are critical to DoD's operational mission. In particular, DoD would benefit from the authority to attract additional cases into Military Treatment Facilities related to essential medical capabilities that should be retained within the military's medical force for national security purposes.

Effective Oversight. The Nation requires strong and dedicated oversight of military personnel and readiness programs to maintain the high combat and support capabilities that have developed during 13 years of war. The tools that contributed to the Force's success should be sustained and, whenever possible, improved. Lessons learned during the wars need to be integrated into peacetime training programs and institutionalized throughout the Force. This need for centralized leadership and a focus on combat readiness is especially important in military medicine. Recommendations in this report address additional oversight and readiness tools within DoD.

Two additional improvements, both beyond the scope of this Commission, may serve to further enhance the Nation's capability to provide the best quality medical care for Service members, both on the battlefield and as they transition from DoD to VA care. First, Congressional oversight of DoD and VA medical programs is not unified, which may contribute to ongoing shortfalls in coordination between the two Departments and weaknesses in transitioning Service member care from DoD to the VA.

[7] See Section 3, Recommendation 1 for further explanation.

Recommendations in this report seek to improve the ways in which DoD and VA work together, but coordination would be further improved if Congressional appropriations committees were realigned to provide unified oversight of both medical systems. The House and Senate Appropriations Subcommittee for Military Construction, Veterans Affairs, and related Agencies could expand their jurisdiction to include DoD's military health delivery system. The Subcommittee would have appropriations oversight over the construction of DoD and VA hospitals, clinical operations, information technologies, supply-chain, operations, and related work streams. Doing so would also provide the kind of long-term support and oversight a $100-billion-per-year health care system needs.

The Commission does call for a continuous effort toward increased collaboration between DoD Health Affairs and VA Health Administration to capture synergies of excellence with the goal of seamless transition of Service members and veterans. It is prudent and worthy for the Congress to explore all possibilities and opportunities to improve the DoD and VA health systems including the consideration of creating a single military health care system for all current military and eligible veterans. To determine the structure, authorities, and leadership responsibilities of such a health system was beyond the scope of this Commission and would require systemic changes that may take years to implement effectively.

Fiscal Sustainability and Federal Budget Pressures. Though the fiscal sustainability of Uniformed Services compensation is both relevant and important, the modernization of Service compensation cannot be the cornerstone of attempts to address larger political goals or budgetary concerns. Recent trends placing continued downward pressures on military budgets are expected to continue. National security is a Constitutional priority and fiscal challenges facing the Nation cannot be solved by focusing solely on the Services. Any attempts to use changes in Service members' compensation and benefits to do so would undermine the effectiveness of the All-Volunteer Force.

Maintenance of the All-Volunteer Force requires compensation levels that allow recruitment and retention of high quality personnel in service to our Nation's defense. Though the men and women of the Services have demonstrated time and again a willingness to make substantial sacrifices to serve the Nation, fair and adequate compensation and a good quality of life should not be included among the items Service members forgo. The Commission does not take a position on compensation levels. These items are the appropriate domain of the Congress and the Uniformed Services, so they can preserve the flexibility to build and maintain the Force necessary to meet national security needs. The Commission does conclude that any general reduction in Service member compensation must be part of a larger national discussion regarding budgetary constraints and entitlements, which is beyond the scope of this Commission.

It is possible, however, to modernize some compensation programs to improve their value to Service members while making them more fiscally sustainable. Improvements in the efficiency of some compensation programs would allow for win-win situations that improve responsiveness, quality, and outcomes for Service members and their families, while lowering cost to the American taxpayer. Where such opportunities exist, the Services' compensation system should be improved to implement efficiencies as a means of good stewardship. While maintaining the overall value of the current

benefits package, these recommendations offer efficiencies that reduce Government expenditures by as much as $10 billion per year.

Other Agency Programs. The Commission reviewed a large number of programs affecting Service members across Government agencies, and its recommendations for modernization focus primarily on programs funded and administered by the Uniformed Services. The recommendations in this report account for benefits that Service members receive from other Government agencies; however, this report does not, for example, contain recommendations related to Department of Veterans Affairs disability compensation or programs such as Department of Education Impact Aid. Nevertheless, the targeted modernization of key compensation and benefit programs could improve the experiences of Service members across the board.

Improving choice, access, and quality for Service members and their families should be at the heart of any modernized compensation system. This system should retain the core strengths that have sustained our Nation's All-Volunteer Force for 42 years and through 13 years of war, while definitively modernizing programs and program components that inadequately reflect the conditions and preferences of a 21st century workforce. Doing so would improve the value of compensation programs to Service members and their families. It would also allow the Services to recruit and retain quality personnel in a more competitive employment landscape, and through improvements in efficiency and accountability, it would help ensure continued fiscal sustainability of the compensation system for years to come.

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3. RECOMMENDATIONS

PAY AND RETIREMENT

RECOMMENDATION 1: HELP MORE SERVICE MEMBERS SAVE FOR RETIREMENT EARLIER IN THEIR CAREERS, LEVERAGE THE RETENTION POWER OF TRADITIONAL UNIFORMED SERVICES RETIREMENT, AND GIVE THE SERVICES GREATER FLEXIBILITY TO RETAIN QUALITY PEOPLE IN DEMANDING CAREER FIELDS BY IMPLEMENTING A MODERNIZED RETIREMENT SYSTEM.

Background:
Currently, Service members in the Active Component (AC) may request to retire after 20 years of service (YOS).[1] Beginning the month after retirement, they receive annuity payments on the first day of each month.[2] These annuity payments are generally calculated by multiplying a member's retired pay base by 2.5 percent for each year of creditable service.[3] Before January 1, 2007, the multiplier was capped at 75 percent of a Service member's retired pay base; however, this cap has been lifted for Service members retiring after January 1, 2007.[4]

Service members in the Reserve Component (RC) may also request retired pay after 20 years of creditable service.[5] The formula for calculating their monthly annuity payments is the same as for AC Service members; however, years of service are calculated by dividing the number of Reserve points by 360.[6] There are two major distinctions between RC and AC retirement pay. RC annuity payments do not begin until retirees reach age 60,[7] and only years in which RC Service members accumulate 50 Reserve points are considered "creditable."[8]

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[1] Each Uniformed Service has its own authority found respectively at Armed Forces, 10 U.S.C. §§ 3911, 3914 (Army); Armed Forces, 10 U.S.C. §§ 6323, 6330 (Navy); Armed Forces, 10 U.S.C. §§ 8911, 8914 (Air Force); Coast Guard, 14 U.S.C. §§ 291, 355 (Coast Guard); Navigation and Navigable Waters, 33 U.S.C. § 3044 (NOAA Commissioned Officer Corps); The Public Health and Welfare, 42 U.S.C. § 212 (U.S. Public Health Service Commissioned Corps).
[2] Armed Forces, 10 U.S.C. § 1412(b).
[3] Armed Forces, 10 U.S.C. § 1409(b). Service members' retired pay base is dependent upon the date they entered service. 10 U.S.C. § 1406 provides that for a Service member who entered before September 8, 1980, the retired pay base is his or her final month of basic pay. 10 U.S.C. § 1407 provides that for a Service member who entered after September 7, 1980, the retired pay base is the total monthly basic pay for the member's last 36 months divided by 36. Pursuant to 10 U.S.C. § 1409(b)(2), if a Service member elects to receive the 15-year Career Status Bonus, his or her multiplier is reduced by 1 percent for each full year that the member's years of creditable service are fewer than 30.
[4] National Defense Authorization Act for FY 2006, Pub. L. No. 109-364, § 642, 120 Stat. 2083, 2259-2260 (2006).
[5] Armed Forces, 10 U.S.C. § 12731.
[6] 10 U.S.C. § 12733. The years of service to be credited to the Service member are calculated by dividing 360 into the member's total points except that the member is capped to 130 points in a 1-year period. That cap does not apply to points earned for active service.
[7] Armed Forces, 10 U.S.C. § 12731. Under 10 U.S.C. § 12731(f), a Service member in the Reserve Component may begin to receive retired pay before the age of 60. For every 90 days of active service in a designated combat zone, the eligibility age is reduced by 3 months. The eligibility age may not be reduced to younger than age 50.
[8] Armed Forces, 10 U.S.C. § 12732. Points may be earned for various reasons, including membership in the Reserve Component, active service, and drill attendance.

Since 2000, Service members have been authorized to participate in the Thrift Savings Plan (TSP),[9] which is a defined contribution (DC) plan that allows eligible participants to contribute a portion of their pay into a tax-deferred investment account.[10] The TSP was created as part of the reform of the Federal civilian employee retirement plan in 1986.[11] It is maintained by the Federal Retirement Thrift Investment Board, which sets the investment policies for the plan.[12] Contributions to the TSP can be invested through a series of funds with broad market diversification, including short-term U.S. Treasury funds, corporate bond funds, and both domestic and international stock index funds.[13] Over time, funds invested in TSP generally increase in value because of compounding investment returns. According to TSP, investments in corporate bonds and stocks "have higher potential returns than ... Government securities," although they "also carry the risk of investment losses."[14] The Services do not contribute to Service members' TSP accounts.[15]

The existing retirement system is effective in providing benefits to Service members who retire after 20 years of service. As such, it plays an important role in readiness and retention of the All-Volunteer Force, especially among members who have served 10 or more years, as discussed below.[16] The Service retirement system as currently constituted, however, provides no benefits for Service members who serve fewer than 20 years, so these members receive no retirement benefit in compensation for their service to the Nation.[17]

The All-Volunteer Force increasingly comprises Service members born after 1980, members of the "millennial" generation. Research has shown members of this generation change jobs frequently and tend to favor flexible retirement options, rather than the defined benefit pension plans preferred by previous generations.[18] Although Service members who separate with fewer than 20 YOS may be eligible for service-related benefits, including education benefits,[19] preferential hiring,[20] and employment

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[9] National Defense Authorization Act for FY 2000, Pub. L. No. 106-65, §§ 661-663, 113 Stat. 512, 670-674 (1999) as amended by National Defense Authorization Act for FY 2001, Pub. L. No. 106-398, § 661, 114 Stat. 1654, 1654A-167 (2000).

[10] Government Organization and Employees, 5 U.S.C. §§ 8432(a), 8440(a). Service members may also contribute to a Roth TSP pursuant to Government Organization and Employees, 5 U.S.C. § 8432d.

[11] Federal Employees' Retirement System Act of 1986, Pub. L. No. 99-335, 100 Stat. 514 (1986).

[12] Government Organization and Employees, 5 U.S.C. § 8472. The Board is required, pursuant to 5 U.S.C. § 8438(b)(1), to establish five different index funds: one each for Government Securities, Fixed Income, Common Stock, Small Capitalization Stock, and International Stock. The Board has also created lifecycle funds that automatically allocate funds in a participant's account to meet the needs of a participant's anticipated retirement date.

[13] Thrift Savings Plan, *Summary of the Thrift Savings Plan*, accessed December 12, 2014, http://www.tsp.gov/PDF/formspubs/tspbk08.pdf.

[14] Thrift Savings Plan, *Summary of the Thrift Savings Plan*, 14, accessed December 12, 2014, http://www.tsp.gov/PDF/formspubs/tsphk08.pdf.

[15] 5 U.S.C. § 8440e(e) prohibits contributions from the Services unless there was an agreement reached pursuant to 37 U.S.C. § 211(d).

[16] *See e.g.*, Department of Defense, *Report of the Tenth Quadrennial Review of Military Compensation, Volume II Deferred and Noncash Compensation, July 2008*, 10, accessed December 14, 2014, http://www.defense.gov/news/qrmcreport.pdf. *See also* Baylor University, *Reduced Retirement Benefits: Should I stay or go?*, accessed August 26, 2014, https://bearspace.baylor.edu/J_West/www/retire.pdf. *See also* Figure 1.

[17] Armed Forces, 10 U.S.C. §§ 3911, 3914, 6323, 6330, 8911, 8914. Coast Guard, 14 U.S.C. §§ 291, 355. Navigation and Navigable Waters, 33 U.S.C. § 3044. The Public Health and Welfare, 42 U.S.C. § 212.

[18] Transamerica Center for Retirement Studies, *Millennial Workers: An Emerging Generation of Super Savers, 15th Annual Transamerica Retirement Survey*, 9, accessed November 10, 2014, http://www.transamericacenter.org/docs/default-source/resources/center-research/tcrs2014_sr_millennials.pdf.

[19] Veterans Benefits, 38 U.S.C. §§ 3311-3325.

[20] Employment, 5 U.S.C. § 2108.

assistance,[21] the current retirement system does not provide them with any financial contribution toward their long-term economic security after separation.

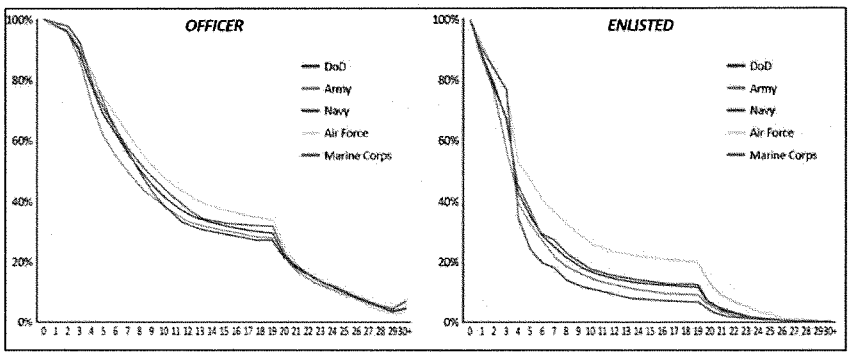
For additional information on Uniformed Services retirement, please see the Report of the Military Compensation and Retirement Modernization Commission: Interim Report *(Section 3.4).*

Findings:

Force Profiles

In developing recommendations to modernize Uniformed Services retirement and compensation systems, the Commission's primary goal was to ensure that the Services can maintain the most professional All-Volunteer Force possible, during both peacetime and wartime. An important part of this goal was making certain the Services are able to maintain their desired rank and experience structures. Figure 3 displays the current active-duty force profiles.[22] Representatives of each of the Uniformed Services communicated to the Commission the crucial message that any modernized package of pay and benefits should enable the Services to maintain similar active-duty force profiles.

Figure 3. Continuation Rates for Active-Duty Officers and Enlisted Personnel, FY 2013



The current defined benefit (DB) retirement plan[23] is a key determinant in shaping these force profiles. The active-duty force constitutes a "closed" personnel system in which Service members are generally promoted from a pool of more junior members already in the system.[24] Many personnel, especially enlisted, separate from service

[21] Veterans Assistance, 38 U.S.C. §§ 4100-4114

[22] The force profile shows the number of personnel (in a service or skill) according to their years of service.

[23] In a defined benefit retirement plan, beneficiaries receive specified monthly payments upon retirement. See "Definitions," Internal Revenue Service, accessed December 10, 2014, http://www.irs.gov/Retirement-Plans/Plan-Participant,-Employee/Definitions.

[24] There are some exceptions to this general rule. For example, enlisted personnel who have successfully completed semester hours at accredited colleges or universities may enlist at grades above E1 (*see, e.g.*, Active and Reserve Components Enlistment Program, AR 601-210, 15 (2013)), and medical doctors may enter the military at grades from O2 through O6 (*see* Armed Forces, 10 U.S.C. § 532(b)).

after their first term. This trend leads to steep declines in the percentage of members who remain in service through the end of their first 8 to 10 years. Thereafter, the force profile flattens as Service members begin to feel the "pull" of the current 20-year retirement system.[25] Financial incentives to remain in Service decline substantially after the 20-year vesting point,[26] leading to another drop in retention.

Service members feel the 20-year retirement pull most strongly at about their 10th year of service. This pull generally occurs because Service members place more value on the DB annuity payments as the likelihood they will reach the benefit eligibility threshold increases.[27] On average, younger members value the benefit less because they are less likely to remain in the force for 20 years.[28] The value of the annuity benefit increases as Service members approach eligibility for earning the benefit[29] Ninety percent of enlisted members who remain in service at least 14 years will reach retirement eligibility.[30] Once Service members reach the vesting point, there is a drop in retention as they retire and receive the annuity.[31]

Service Member Choice

Over time, the variety of private-sector benefit plans available to employees has increased substantially.[32] According to the Bureau of Labor Statistics, in March 2014, 74 percent of full-time, private-sector employees had access to one or more retirement plans, and 86 percent had access to medical care benefits.[33] Furthermore, private-sector employers often utilize a variety of contribution benefits packages that allow employees to opt in, including short- and long-term disability plans, supplemental life insurance, and legal services, among others.[34] Private-sector employers also normally provide a menu of health care insurance plans to meet the needs of employees.[35] Data on the use of private health exchanges for U.S. employers show "enrollees chose the health plan they felt offered the best value for themselves and their family, and liked being able to select among multiple carriers."[36]

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[25] Paul F. Hogan, "Overview of the Current Personnel and Compensation System," in *Filling the Ranks: Transforming the U.S. Military Personnel System*, ed. Cindy Williams (Cambridge: MA: Belfer Center for Science and International Affairs, John F. Kennedy School of Government, Harvard, 2004), 29-53.

[26] According to Merriam-Webster Dictionary, vesting is "the conveying to an employee of the inalienable right to share in a pension fund especially in the event of termination of employment prior to the normal retirement age."

[27] Lazear, E.P. (1990): "Pensions and Deferred Benefits as Strategic Compensation," *Industrial Relations: A Journal of Economy and Society*, 29(2), 264. *See also Tenth Quadrennial Review of Military Compensation, Report of the Tenth Quadrennial Review of Military Compensation, Volume II Deferred and Noncash Compensation, July 2008*, 10, accessed December 14, 2014, *http://www.defense.gov/news/qrmcreport.pdf.* "Reduced Retirement Benefits: Should I stay or go?," Baylor University, accessed August 26, 2014, https://bearspace.baylor.edu/J_West/www/retire.pdf.

[28] Lazear, E.P. (1990): "Pensions and Deferred Benefits as Strategic Compensation," *Industrial Relations: A Journal of Economy and Society*, 29(2), 264.

[29] Ibid.

[30] Department of Defense, *Report of the Tenth Quadrennial Review of Military Compensation, Volume II Deferred and Noncash Compensation, July 2008*, 31, accessed Dec. 10, 2014, http://www.defense.gov/news/qrmcreport.pdf.

[31] Lazear, E.P. (1990): "Pensions and Deferred Benefits as Strategic Compensation," Industrial Relations: A journal of Economy and Society, 29(2), 264.

[32] Jeffrey R. Brown and Scott J. Weisbenner, Building Retirement Security through Defined Contribution Plans, accessed December 9, 2014, https://www.acli.com/Issues/Retirement%20Plans/Documents/Brown%20Weisbenner_FullPaper.pdf.

[33] Bureau of Labor Statistics/U.S. Department of Labor, Employee Benefits in the United States – March 2014, accessed December 9, 2014, http://www.bls.gov/news.release/pdf/ebs2.pdf.

[34] *See* Department of the Treasury, Internal Revenue Service, *Employer's Tax Guide to Fringe Benefits*, Publication 15-B, 1, accessed January 7, 2015, http://www.irs.gov/pub/irs-pdf/p15b.pdf.

[35] Ibid.

[36] "On Private Health Exchanges, Choice Drives Satisfaction," Society for Human Resource Management, accessed December 9, 2014, http://shrm.org/hrdisciplines/benefits/articles/pages/private-health-exchanges.aspx

The Uniformed Services have also begun to recognize the benefits of providing members with more choices. For example, Assignment Incentive Pay (AIP) was created in 2003 "to attract volunteers to fill jobs/billets that have been identified as historically difficult to fill."[37] Under the AIP program, Service members can choose to submit bids representing the additional compensation they would accept for hard-to-fill assignments.[38] By allowing Service members some choice in assignment and related compensation, AIP "has become extremely popular and is the military's preferred way to compensate troops from all of the services for certain unusual and extended assignments."[39] Similarly, DoD's experience with voluntary separation incentive[40] and career status bonuses[41] reveals some Service members prefer lump-sum payments to typical annuities.[42] Continuing to increase flexibility and Service-member choice in the compensation system would enable the Services to more readily adapt to changing views and values of the next generation of recruits.

Defined Benefit Inequity

Observers, including military leaders and past commissions, have commonly criticized the current retirement system for its inequity.[43] Uniformed Services retirement is contingent on 20-year "cliff vesting"—a system in which only those who complete a 20-year career receive benefits.[44] Under the current Uniformed Services retirement system, 83 percent of all enlisted personnel and 51 percent of officers receive no retirement savings for their service.[45] Many comments received by the Commission also spoke to this inequity in the current DB-only retirement plan:

> *There should be Government matching to TSP. Those members who do not serve 20 years have zero support from their employer (DoD) with regard to retirement.*[46]

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[37] "Assignment Incentive Pay," Navy Personnel Command, accessed December 10, 2014, http://www.public.navy.mil/bupers-npc/career/payandbenefits/pages/aip.aspx.
[38] Assignment Incentive Pay (AIP) Program, Policy Decision Memorandum 003-06, December 7, 2006, accessed January 12, 2015, http://www.public.navy.mil/bupers-npc/career/payandbenefits/documents/TABFAIPPDMOFDEC06.pdf.
[39] "Assignment Incentive Pay (AIP)," Military Compensation, accessed December 10, 2014, http://militarypay.defense.gov/pay/aip.html.
[40] "VSI/SSB Recoupment," Defense Finance and Accounting Service, accessed December 10, 2014, http://www.dfas.mil/retiredmilitary/plan/separation-payments/vsi-ssb-recoupment.html.
[41] "CSB/REDUX," Defense Finance and Accounting Service, accessed December 10, 2014, http://www.dfas.mil/retiredmilitary/plan/estimate/csbredux.html.
[42] Curtis J. Simon, John T. Warner, and Saul Pleeter, "Discounting, Cognition, and Financial Awareness: New Evidence from a Change in the Military Retirement System," *Economic Inquiry*, 53, no. 1, 318-334, accessed December 10, 2014, http://onlinelibrary.wiley.com/doi/10.1111/ecin.12146/pdf.
[43] *See* Department of Defense, *Report of the Tenth Quadrennial Review of Military Compensation, Volume II Deferred and Noncash Compensation, July 2008*, 12-16, http://www.defense.gov/news/qrmcreport.pdf. *See also* Defense Business Board, *Report to the Secretary of Defense: Modernizing the Military Retirement System*, accessed November 10, 2014, http://dbb.defense.gov/Portals/35/Documents/Reports/2011/FY11-5_Modernizing_The_Military_Retirement_System_2011-7.pdf. *See also* University of Pennsylvania, Wharton School of Business, Public Policy Initiative, *An Affordable and Equitable Retirement System for our Veterans*, accessed November 10, 2014, http://publicpolicy.wharton.upenn.edu/live/news/317-an-affordable-and-equitable-retirement-system-for. *See also* David B. Newman, *Mitigating the Inequity of the Military Retirement System by Changing the Rules Governing Individual Retirement Accounts for Service Members*, (Monterey, California: The Naval Postgraduate School, 1997), 31-44.
[44] Patrick Mackin, American Enterprise Institute, *Expanding Access While Saving Money in the Military Retirement System*, 4, accessed December 14, 2014, https://www.aei.org/publication/expanding-access-while-saving-money-in-the-military-retirement-system/.
[45] Department of Defense, *Valuation of the Military Retirement System; September 30, 2012*, 24, accessed December 10, 2014, http://actuary.defense.gov/Portals/15/Documents/MRF_ValRpt2_2012.pdf.
[46] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.

> *There should be some type of retirement or IRA for those individuals that leave the military before 20 years.*[47]
>
> *As someone who will very likely retire at or after 20 years, I feel it's important to keep that option for "Career military," but when I was young it seems too little for a large gamble. Think you need matching TSP option to provide some vesting in a retirement option for those that choose to serve less than a 20 year career, since you lose all personal retirement tax benefits with the 20 or nothing option.*[48]

By comparison, the private sector is required by the Employee Retirement Income Security Act (ERISA)[49] to vest its employees in company-provided retirement plans within a much shorter time than the Services' system vests Service members. The timeframe for vesting depends on the type of retirement plan.[50] Pursuant to ERISA, any DB plan must cliff vest by 5 years of employment, or vest gradually during a period of 7 years.[51] A DC plan must cliff vest within 3 years, though graduated vesting may take up to 6 years.[52] As a result of these shorter private-sector vesting times, a much higher percentage of private-sector employees receive some type of retirement benefit, as compared to Service members who can only receive the retirement annuity upon reaching 20 YOS.

As shown in Figure 4, 70 percent of Fortune 100 companies offered DC retirement plans in 2013, and 23 percent offered "blended" plans that combine DC and DB elements.[53] The Society for Human Resource Management reported that 92 percent of all private companies offered a DC plan in 2013, compared to 19 percent that offered only a DB plan.[54] Accordingly, private-sector employees earn retirement savings much earlier in their careers than do Service members, who must currently wait until 20 years into a career to be eligible for any retirement annuity.

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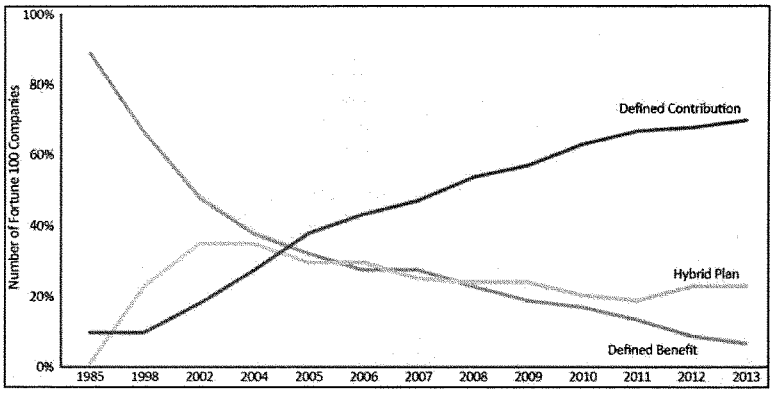
[47] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[48] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[49] P.L. 93–406, 88 Stat. 829, enacted September 2, 1974, codified in part at 29 U.S.C. ch. 18
[50] *See* Internal Revenue Code, 26 U.S.C. § 411.
[51] Internal Revenue Code, 26 U.S.C. § 411(a)(2)(A).
[52] Internal Revenue Code, 26 U.S.C. § 411(a)(2)(B).
[53] Towers Watson, *Retirement Plans Offered by 2013 Fortune 100*, accessed on November 10, 2014, http://www.towerswatson.com/en-US/Insights/Newsletters/Americas/insider/2013/retirement-plans-offered-by-2013-Fortune-100.
[54] Society of Human Resource Management, *2013 Employee Benefits, An Overview of Employee Benefits Offerings in the U.S.*, accessed October 23, 2014, 19, http://www.shrm.org/research/surveyfindings/articles/documents/13-0245 2013_empbenefits_fnl.pdf.

Figure 4. Fortune 100 Retirement Plans



Depending on the structure and rules of the DC plan, employees could receive higher investment rewards, may have preretirement access to accumulated retirement funds, often receive benefits in lump-sum distributions, could have increased options for inheritance by heirs other than a surviving spouse, and benefit from portability.[55] Portability is a central feature of DC plans, and though it is available in certain DB plans, it is not a feature of the current Uniformed Services' DB plan.[56] The ability to move one's retirement savings throughout a career makes these plans attractive in today's workplace environment with its high rates of job change.[57] Studies show that younger generations prioritize retirement and health saving through workplace benefits[58] and that the number of first-time DC plan enrollees in the general economy is quickly growing as young workers enter the labor force.[59] Approximately 40,000 of these younger workers enrolled in their employer's 401(k) plan for the first time during the first half of 2014—a 55 percent increase from the same 6-month period in 2013.[60] These trends have important implications for the attractiveness of the Uniformed Services retirement system, which is not portable and has a very long vesting period.

Defined Contribution Plan Features

Certain features make some DC plans especially attractive to beneficiaries. Of particular importance to shaping employees' perspective on and interest in participating in DC retirement plans are automatic contributions made by the employer without any participation by the employee, employer matches of

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[55] David Rajnes, Employee Benefit Research Institute, *An Evolving Pension System: Trends in Defined Benefit and Defined Contribution Plans, EBRI Issue Report No. 249, September 2002*, 44-45, accessed December 10, 2014, http://www.ebri.org/pdf/briefspdf/0902ib.pdf.
[56] Ibid, 45.
[57] Ibid, 24. EBRI cites DOL data indicating that the average U.S. worker holds about nine jobs by the age of 32.
[58] "Bank of America Merrill Lynch Report Finds Millennials Prioritizing Retirement and Health Savings Through Workplace Benefits," Bank of America, accessed December 11, 2014, http://newsroom.bankofamerica.com/press-releases/global-wealth-and-investment-management/bank-america-merrill-lynch-report-finds-mille.
[59] "*Why Millennials Are Flocking to 401(k)s in Record Numbers*," Money, accessed October 24, 2014, http://time.com/money/3532253/401ks-millennials-saving-increase/.
[60] Ibid.

contributions made by an employee, employee-friendly vesting policies, and automatic enrollment into plans.

Automatic Contribution: Companies with top-rated DC retirement plans, including about a third of the 250 largest U.S. corporations, provide additional contributions to employees' accounts, even when employees choose not to participate.[61] Federal civilian employees receive automatic contributions equal to 1 percent of their pay into their TSP accounts, even if they do not contribute any of their own income.[62] Although such automatic employer contribution programs are attractive benefits for employees, Service members do not currently benefit from automatic or standard contributions.[63]

Matching Funds: "The vast majority of employer-sponsored savings plans include an employer match."[64] These payments match employee contributions based on a portion of each dollar employees invest.[65] In a survey of 476 companies, with 71 percent of the respondents representing large companies (1,000 or more employees), 94 percent reported providing matching contributions in cash versus company stock or a combination of cash and company stock.[66] Cash matching is the most prevalent form of employee 401(k) match offered by employers.[67] Data show participation in a plan is higher when employers provide a matching contribution and the effect is similar across income groups.[68] The data show when employers offer matching contributions, many employees will contribute at least enough to maximize the match.[69] In a joint survey conducted by WorldatWork and the American Benefits Institute, 66 percent of respondents indicated at least half their retirement plan's participants are contributing enough to receive the full employer match.[70] The survey showed 77 percent of the responding organizations' employees contribute more than 5 percent of their salary per paycheck.[71] The Commission received numerous comments expressing the sentiment that "TSP should have employer contributions"[72] for Service members and that the "Military should match a percent of TSP contributions, just as DoD civilian contributions are matched."[73]

Vesting: The amount of time-in-service required before employees are entitled to retain employer contributions to their retirement accounts—known as "vesting"—can affect participant behaviors as well. Industry-wide and organization-specific issues can affect

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[61] "The Best 401(k)s: Retire at 60 From Conoco With $3.8 million; Facebook Last," Margaret Collins and Carol Hymowitz, Bloomberg, accessed December 11, 2014, http://www.bloomberg.com/news/2014-07-22/conocophillips-best-among-401-k-plans-with-facebook-last.html.
[62] Government Organization and Employees. 5 U.S.C. § 8432(c).
[63] Government Organization and Employees. 5 U.S.C. § 8440e(e).
[64] Brigitte Madrian, National Bureau of Economic Research, *Matching Contributions and Savings Outcomes: A Behavioral Economics Perspective*, 3, accessed December 10, 2014, http://www.nber.org/papers/w18220.
[65] Jamie Cowen, Employee Benefits Research Institute, *Twenty-Five Years After Federal Pension Reform*, 13, accessed December 11, 2014, http://www.ebri.org/pdf/briefspdf/EBRI_IB_07-2011_No359_FERS86.pdf.
[66] WorldatWork, Trends in 401(k) Plans and Retirement Rewards, 3, accessed October 22, 2014, http://www.worldatwork.org/waw/adimLink?id=71489.
[67] Ibid.
[68] William F. Bassett, Michael J. Flemming and Anthony P. Rodrigues, *How Workers Use 401K Plans: The Participation, Contribution and Withdrawal Decisions*, National Tax Journal, 51 no. 2 (1998), 276, accessed January 7, 2015, http://www.ntanet.org/NTJ/51/2/ntj-v51n02p263-89-how-workers-use-401.pdf.
[69] Joanne Summer, Society of Human Resource Management, *Finding the Right 401(k) Match*, accessed October 22, 2014, http://www.shrm.org/hrdisciplines/benefits/articles/pages/401k-match-factors.aspx.
[70] WorldatWork, Trends in 401(k) Plans and Retirement Rewards, 2, accessed October 22, 2014, http://www.worldatwork.org/waw/adimLink?id=71489.
[71] Ibid.
[72] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[73] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.

the decisions employers make when it comes to 401(k) plan vesting and eligibility. For example, employers in industries with low wages, and therefore low tenure and high employee turnover, such as the restaurant and hospitality industries, might delay employer contributions. If employees in these industries were immediately eligible for plan participation and fully vested upon employment, the plan costs would increase without generating a commensurate benefit to the company, such as employee longevity.[74] For Federal Employee Retirement System employees, there is generally a 3-year vesting period (2 years for most employees in Congressional and certain noncareer positions) before they can keep the agency automatic (1 percent) contributions and associated earnings.[75]

Auto-enrollment: Studies have shown that "by far the most effective method to increase participation in defined contribution saving schemes is automatic enrollment."[76] Many studies have found complexity is a deterrent to participation in savings plans. Automatic enrollment decouples the savings plan participation decision from the contribution rate and asset allocation decision, which are viewed as difficult and lead to procrastination.[77] With automatic enrollment plans, a person is enrolled at a default rate of contribution, and for many, their contributions are invested in a default asset allocation. The effect of automatic enrollment is greatest for groups with the lowest saving rates, generally younger, lower-income workers.[78] Because very few people opt out of savings plan participation when they are automatically enrolled, automatic enrollment promotes long-term savings for retirement.[79] In particular, only 2 to 3 percent of automatically enrolled employees opt out of savings plan participation in a 12-month period.[80] The WorldatWork and American Benefits Institute joint survey showed 56 percent of respondents reported their company offers automatic enrollment in their 401(k) retirement plans.[81] Federal agencies automatically enroll their newly hired or rehired civilian employees in TSP.[82] According to recent data, 96.1 percent of federal employees who are automatically enrolled into TSP remained enrolled.[83] Currently, Service members are exempt from automatic enrollment.[84]

Although defined contribution plans offer Service members greater flexibility and more choices, these benefits are accompanied by increased complexity. To take full advantage of a DC plan, Service members must be informed of the choices available and educated as to the consequences of making each of these choices. Providing such

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[74] Joanne Summer, Society of Human Resource Management, *Finding the Right 401(k) Match*, accessed October 22, 2014, http://www.shrm.org/hrdisciplines/benefits/articles/pages/401k-match-factors.aspx.
[75] Government Organization and Employees, 5 U.S.C. § 8432(g).
[76] Brigitte Madrian, "Matching Contributions and Savings Outcomes: A Behavioral Economics Perspective," in *Matching Contributions for Pensions: A Review of International Experience*, eds. Richard Hinz, Robert Holzmann, David Tuesta, Noriyuki Takayama (Washington, DC, The World Bank, 2013), 298-309, accessed January 8, 2014, http://www.nber.org/papers/w18220.pdf (citing research of the effectiveness of automatic enrollment).
[77] Ibid.
[78] Ibid.
[79] Ibid.
[80] James J. Choi, David Laibson, Brigitte C. Madrian, Andrew Metrick, *Defined Contribution Pensions: Plan Rules, Participant Choices, and the Path of Least Resistance*, 11, accessed December 11, 2014, http://www.nber.org/papers/w8655.
[81] WorldatWork, *Trends in 401(k) Plans and Retirement Rewards*, March 2013, 4, accessed December 10, 2014 http://www.worldatwork.org/waw/adimLink?id=71489.
[82] Government Organization and Employees, 5 U.S.C. § 8432(b)(2).
[83] TSP Official, email to MCRMC staff, October, 21, 2014.
[84] Government Organization and Employees, 5 U.S.C. § 8432(b)(2)(D)(ii).

information would require renewed emphasis on financial literacy.[85] A small investment in financial education, however, could have a disproportionately large effect on employee participation in a DC plan and in the plan's effectiveness. A 2008 study indicated that a provision to newly hired employees of relatively simple planning tools designed to aid their understanding of a company's DC plan increased enrollment by 12 to 21 percent.[86] This increase is 2 or 3 times the effect of employer matching, and more cost effective.[87] If Service members are provided the financial education necessary to make informed choices when utilizing a DC plan, they would be more likely to use the plan and more likely to make choices tailored to their individual situations—an important component of a modernized retirement model.

Retention with Defined Contribution

The effectiveness of Uniformed Services compensation can be measured by the achievement of recruiting and retention goals, which in turn ensures the All-Volunteer Force is staffed with sufficient personnel who have the appropriate skill sets.[88] As described above, the current DB retirement plan has a strong effect on maintaining the current force profile, which the Services have stated they want to maintain. The Commission analyzed potential changes or improvements to the current Uniformed Services retirement system, and examined the retention effects of a blended retirement plan for the Services.[89] The conclusion reached was that the current force profile could be maintained with a retirement plan comprised of a majority of the current DB plan, a new DC plan for all Service members, and additional continuation pay to provide midcareer retention incentives.[90] These results are shown in Figure 5, which displays current Active and Reserve Component force profiles (black lines) compared to the projected force profiles (red lines) based on a blended retirement plan. The figures show that retention under the blended retirement system is virtually identical to that of the current DB-only retirement system.

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[85] For a thorough discussion of financial literacy, see *The Report of the Military Compensation and Retirement Modernization Commission: Final Report, Recommendation 3.*

[86] Annamaria Lusardi, Punam Keller, Adam Keller, New Ways to Make People Save: A Social Marketing Approach," in *Overcome the Saving Slump: How to Increase the Effectiveness of Financial Education and Savings Programs*, 19-20, accessed December 11, 2014, http://www.nber.org/papers/w14715

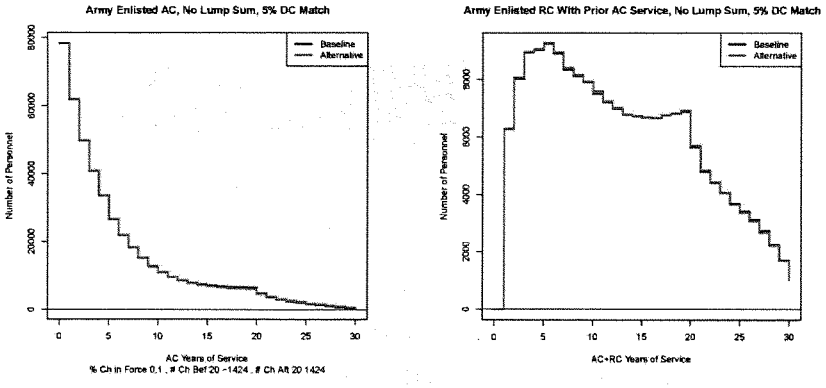
[87] *See* Brigitte Madrian, National Bureau of Economic Research, *Matching Contributions and Savings Outcomes: A Behavioral Economics Perspective*, accessed December 10, 2014, http://www.nber.org/papers/w18220.

[88] Karl Gingrich, Brookings, *Making it Personnel: The Need for Military Compensation Reform*, 4, accessed November 10, 2014,
http://www.brookings.edu/~/media/research/files/papers/2012/2/military%20compensation%20gingrich/02_military_compensation_gingrich.pdf

[89] RAND Corporation, *Analysis of Retirement Reform in Support of the Military Compensation and Retirement Modernization Commission Progress Report*, November 2014 (RAND performed this analysis pursuant to a contract with the Commission).

[90] Ibid.

Figure 5. Force Profiles: Current vs. Proposed Retirement Systems[91]



Each figure presents the current force profile (in black). They also present (in red) the force profiles that would result from a blended retirement system that maintains the 20-year vesting of the Services' DB plan with a multiplier of 2.0, a new DC plan for Service members, and continuation pay (i.e., midcareer payments to provide additional retention incentives). The chart on the left shows projections for the AC and the chart on the right shows projections for the RC. These models illustrate there would be no appreciable difference in overall force profile when comparing the current retirement plan to the blended retirement plan.

Based on the features of this blended approach, the DRM projects continuation pay would be required at 12 YOS to maintain the current force profile. Table 2 shows this continuation pay, displayed as multiples of a Service member's monthly basic pay. That is, retaining the Army's current force profile would require paying Army active-duty enlisted personnel continuation pay equal to 2.8 times their monthly basic pay, assuming Service members are auto-enrolled to contribute 3 percent of their basic pay in TSP and that the Services match these contributions. To the extent that the Services need additional retention incentives, they would have the flexibility to increase continuation pay. For each Service, the analysis shows a blended retirement

[91] RAND projected these alternative force profiles with its Dynamic Retention Model (DRM), which is a mathematical model designed to analyze structural changes in the military compensation system. The DRM projects individual decision-making over each Service member's life cycle assuming that members have various preferences for Active and Reserve Component service. The parameters of this model are empirically estimated with data about 25,000 real military careers, spanning 20-21 years, drawn from the Defense Manpower Data Center. The DRM relies upon military pay and compensation information that was drawn from military pay tables, as well as U.S. Census Bureau data to model civilian pay opportunities. The DRM can be used to analyze retention both in steady-state and year-by-year during transitions between compensation systems. More information on the DRM and its underlying methodology and assumptions is available in RAND's report, *Analysis of Retirement Reform in Support of the Military Compensation and Retirement Modernization Commission*. Importantly, DoD also relied upon the DRM for retention analyses in its March 2014 White Paper, *Concepts for Modernizing Military Retirement*. *See* Department of Defense, Concepts For Modernizing Military Retirement, http://rise.naus.org/documents/2014military-retirement-report.pdf.

plan could create a steady-state force level and experience mix equivalent to the current retirement plan.[92]

Table 2. AC and RC Continuation Pay Multipliers by Service

	Enlisted		Officer	
	AC	RC	AC	RC
Army	2.8	0.9	13.0	6.2
Marine Corps	4.2	1.1	11.7	5.8
Navy	4.8	1.2	15.2	6.7
Air Force	2.4	0.8	15.9	6.4

In addition to providing the Services the ability to maintain the current force profiles, continuation pay provides flexibility for Service personnel managers to adjust force profiles if future manpower requirements change. Continuation pay increases the share of Service members' lifetime compensation that is paid as current, rather than deferred, compensation. Studies have repeatedly concluded the current retirement system is heavily weighted toward deferred payments, even though typical Service members are young and have a preference for current compensation, rather than deferred. For example, the President's Commission on Military Compensation (1978) criticized the military retirement system as ineffective because it had little effect on recruiting and early retention, but an extremely strong effect on retention after 10 or 12 YOS.[93] The Defense Advisory Committee on Military Compensation (DACMC) (2006) also critiqued the compensation system, stating too much compensation is deferred. The DACMC concluded that moving some compensation forward to current pay would increase efficiency[94] and substituting current retention pay for deferred retirement pay is preferred by Service members and is less costly to the Government.[95]

Retirement Value with Defined Contribution

The blended retirement system has the potential to provide retirement assets that Service members would value equal to or greater than those of the current DB-only plan. The value of the blended plan can be measured in two ways. First, respondents to the Commission's survey provided their preferences for various potential features of the retirement system. The survey methodology enabled the Commission to quantify the dollar value of those preferences to easily compare among retirement system alternatives (see Section 5 for further explanation of the survey methodology). For example, Figure 6 shows that survey respondents preferred to be auto-enrolled in TSP at 5 percent of their basic pay. Service members could also raise or lower their TSP contributions to adjust their auto-enrollment levels.

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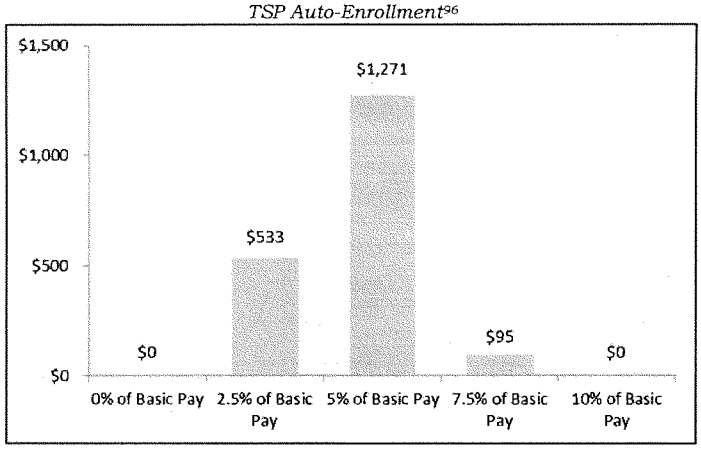
[92] RAND Corporation, *Analysis of Retirement Reform in Support of the Military Compensation and Retirement Modernization Commission Progress Report*, November 2014.
[93] Office of the President of The United States, *Report of the President's Commission on Military Compensation, April 1978*, accessed December 19, 2014, http://babel.hathitrust.org/cgi/pt?id=umn.31951d00830253o;view=1up;seq=1
[94] Defense Advisory Committee on Military Compensation, *Completing the Transition to an All-Volunteer Force: Report of the Defense Advisory Committee on Military Compensation*, 23.
[95] Ibid.

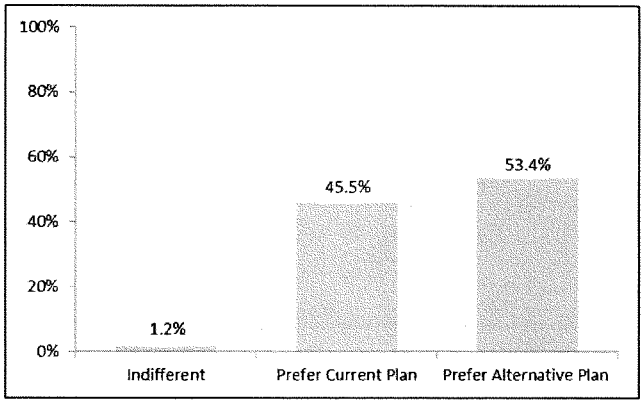
Figure 6. Active-Duty Service Members' Perceived Value: TSP Auto-Enrollment[96]



As shown in Figure 7, the Commission's survey also showed that, compared to the current DB-only plan, 54 percent of active-duty respondents prefer a blended retirement system. The blended retirement system would have a lower DB multiplier, and the survey showed a corresponding decrease in perceived value. Yet survey respondents indicated increased value for automatic enrollment and Government matching of TSP contributions. More recent entrants into service expressed a stronger preference for the blended retirement system, with 60 percent of E1-E4 survey respondents preferring a blended retirement system.

[96] This figure displays the average amount in dollars at which survey respondents valued compensation alternatives. Presentation in dollar values allows the value of compensation features to be directly compared.

Figure 7. Percent of Active-Duty Service Members Who Prefer the Current or Proposed Retirement System[97]



The second way value can be measured is how much a stream of future annuity payments is worth to a Service member at the time of retirement. Research shows that the value a person attaches today to a stream of future payments is typically less than the cumulative amounts eventually paid out.[98] A discount rate is applied to indicate the stream of future payments. This total value is commonly referred to as the payments' "discounted net present value."[99] Figures 8 and 9 illustrate the value of retirement assets for an E7 and an O5 at their 20th year of service under various retirement plans. The first bar shows the net present value of DB payments under the current DB-only plan with a 2.5 percent retirement multiplier. The present value of those DB payments would be $201,282 for enlisted personnel and $711,948 for officers.

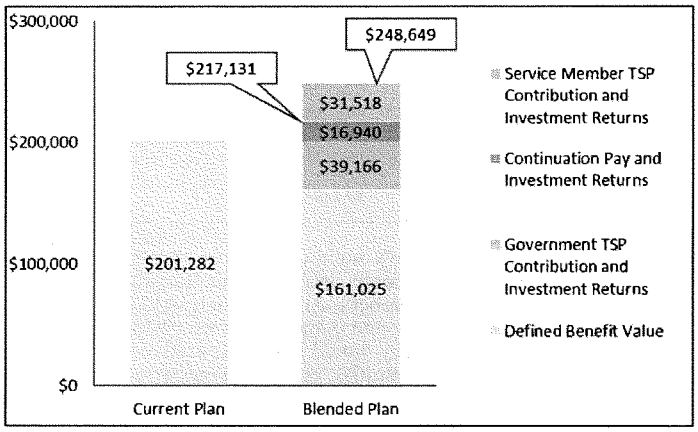
Subsequent bars show the value of retirement assets with a blended retirement system with different levels of Service-member contributions into TSP. The light green portion of each bar represents the net present value of DB payments, assuming a 2.0 percent retirement multiplier. The dark green portion represents the value of Government TSP on behalf of Service members, including associated investment earnings. The blue portion is the value of the continuation pay needed to maintain the force profile, including investment earnings until 20 YOS. The gray-shaded portions on the top represent the Service member's TSP contribution, with associated investment earnings.

The figures show that the blended retirement system, depending on investment behavior, could result in Service members having greater Government-sponsored retirement savings than the current DB-only retirement plan. For example, enlisted

[97] Survey results, MCRMC survey, July 1, 2014 to October 10, 2014.
[98] *See e.g.*, Aswatch Damodaran, *Strategic Risk Taking: A Framework for Risk Management* (New York: Pearson Prentice Hall, 2008), 111.
[99] "Discounted Cash Flow DCF, Net Present Value NPV, Time Value of Money Explained: Definitions, Meaning, and Calculated Examples," Building The Business Case, accessed December 17, 2014, https://www.business-case-analysis.com/discounted-cash-flow.html.

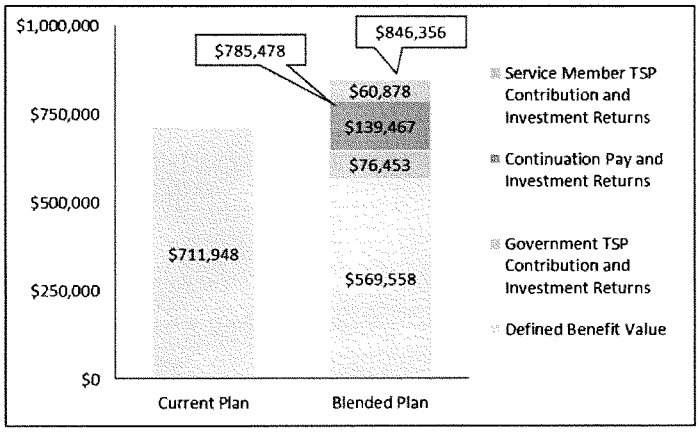
Service members who contribute 3 percent of their basic pay into TSP accounts would be expected to have Government-sponsored assets totaling $217,131 at 20 YOS. This balance exceeds the $201,282 value they would derive from DB-only payments. In addition to Government-sponsored assets, under the blended plan the members would have saved $31,518 of their own funds, enhancing their financial status. Retirement assets under the blended plan are even higher if Service members contribute 5 percent of their basic pay to their TSP accounts, and retirement assets are lower if Service members opt out of DC plan participation.

Figure 8. Retirement Assets of a Retiring Active-Duty E7, Current vs. Blended Retirement Plans[100]



[100] Assumes: (1) An active-duty E7 who retires at age 38 after 20 YOS and who had a standard promotion path; (2) A life expectancy of 85 years; (3) A personal discount rate of 12.7 percent (see RAND report, page XX); (4) An automatic Government contribution of 1 percent of basic pay into the Service member's TSP account; (5) Matching Government contributions of 3 percent of basic pay into the Service member's TSP account; (6) Continuation Pay of 3.37 months of basic pay at 12 YOS that is invested (average of AC Enlisted data in Table 2); (7) Service member contributions of 3 percent of basic pay into the Service member's TSP account; (8) The accumulated value of the TSP contributions is estimated using the historical earnings data from the TSP (2001 – 2014). Assuming an asset distribution similar to the life cycle L2050 plan, the average rate of return is 7.3 percent per year. After adjusting for inflation over those years (averaging approximately 2.35% per year), the real rate of return for the L2050 plan is 4.95 percent per year. Service members would receive CP to promote midcareer retention. This comparison of retirement assets assumes CP is saved and invested for retirement.

Figure 9. Retirement Assets of a Retiring Active-Duty O5, Current vs. Blended Retirement Plans[101]



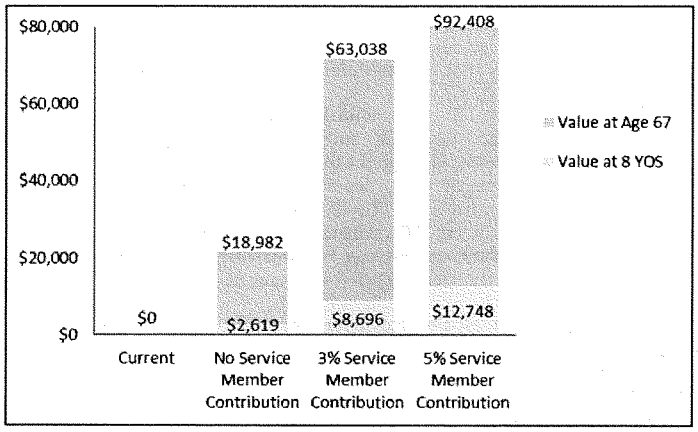
As mentioned above, the Commission's survey indicated that more recent entrants into service prefer a blended retirement system over the current DB-only plan. Because the majority of Service members do not reach 20 YOS and vest for DB payments, a blended retirement system would provide them with Government-sponsored retirement savings that they would not otherwise obtain. Moreover, these new retirement savings could be substantial, even for those who leave before 20 YOS. Figure 10 presents the value of Government contributions into an E5's TSP account at 8 YOS (in light green). If the E5 contributes nothing into TSP, he or she would still have $2,619 of TSP savings at 8 YOS because of automatic Government contributions of 1 percent of basic pay. If the E5 contributes 5 percent of his or her basic pay into TSP, the Government would have contributed $12,748 of TSP savings by 8 YOS. Furthermore, these balances could grow substantially over time because of investment returns. As stated previously, funds invested in TSP generally increase in value because of compounding investment returns, with investments in corporate bonds and stocks having higher potential returns and investment risks.[102] Assuming the E5 left service after 8 years, his or her TSP savings would grow by age 67 to $18,982 if he or

[101] Assumes: (1) An active-duty O5 who retires at age 42 after 20 YOS and who had a standard promotion path; (2) A life expectancy of 85 years; (3) A personal discount rate of 6.4% (see RAND Corporation, *Analysis of Retirement Reform in Support of the Military Compensation and Retirement Modernization Commission Progress Report*, November 2014); (4) An automatic Government contribution of 1 percent of basic pay into the Service member's TSP account; (5) Matching Government contributions of 3 percent of basic pay into the Service member's TSP account; (6) Continuation Pay of 14 months of basic pay at 12 YOS that is invested (average of AC Officer data in Table 2); (7) Service member contributions of 3 percent of basic pay into the Service member's TSP account; (8) The accumulated value of the TSP contributions is estimated using the historical earnings data from the TSP (2001 – 2014). Assuming an asset distribution similar to the life cycle L2050 plan, the average rate of return is 7.3 percent per year. After adjusting for inflation over those years (averaging approximately 2.35% per year), the real rate of return for the L2050 plan is 4.95 percent per year. Service members would receive CP to promote midcareer retention. This comparison of retirement assets assumes CP is saved and invested for retirement.

[102] Thrift Savings Plan, *Summary of the Thrift Savings Plan*, 12, accessed December 12, 2014, http://www.tsp.gov/PDF/formspubs/tspbk08.pdf.

she did not contribute to TSP, or to $92,408 if 5 percent of basic pay was contributed (dark green bar).[103]

Figure 10. Value of Government TSP Contributions for an E5 Who Leaves After 8 Years of Service[104]



Conclusions:
There is substantial Uniformed Services, political, and academic support for a blended retirement system. DoD's March 2014 White Paper, "Concepts for Modernizing Military Retirement," proposed a new DC plan and an adjustment to the DB multiplier to either 2.0 or 1.75 percent.[105] The 10th Quadrennial Review of Military Compensation proposed in 2008 a blended retirement system with both DB and DC elements.[106] The Defense Business Board proposed in 2011 replacing the entire DB plan with a DC plan.[107] The Defense Business Board's all-DC proposal is not advisable because it would make it more difficult for the Services to maintain their desired force profiles, yet the Board's proposal does provide additional support for the implementation of a limited DC plan for all Service members.

The Uniformed Services retirement system should be modified to provide retirement benefits to many more service members and maintain the value of retirement benefits

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[103] Withdrawals from TSP before age 59½ may incur tax penalties.
[104] Assumes: (1) An active-duty E5 who leaves service after 8 YOS and who had a standard promotion path; (2) An automatic Government contribution of 1 percent of basic pay into the Service member's TSP account; (3) Matching Government contributions into the Service member's TSP account; (4) Nominal annual investment returns equal to 4.95 percent; and (5) Inflation and Cost-of-Living Adjustments equal to 2.0 percent.
[105] Department of Defense, *Concepts For Modernizing Military Retirement*, http://www.mcrmc.gov/public/docs/report/pr/Concepts_for_Modernizing_Military_Retirement_SBP_FN_15_16_27.pdf.
[106] Department of Defense, *Report of the Tenth Quadrennial Review of Military Compensation, Volume II Deferred and Noncash Compensation, July 2008*, xiii, http://www.defense.gov/news/qrmcreport.pdf.
[107] Defense Business Board, *Modernizing the Military Retirement System: Task Group*, Brief, 4-6, accessed Dec. 11, 2014, http://dbb.defense.gov/Portals/35/Documents/Reports/2011/FY11-5_Modernizing_The_Military_Retirement_System_2011-7.pdf.

for Service members who reach 20 YOS. Such modifications should allow for the Services to maintain the requisite force profile.[108] To accomplish this goal, the Uniformed Services should implement a blended retirement system that offers both DB and DC elements, plus continuation pay to maintain midcareer retention rates. This approach would allow the Uniformed Services to compete more effectively with the private sector for the high quality of personnel they have come to expect as part of the All-Volunteer Force. A blended retirement system would also provide additional options for Service members, as well as provide the Services the tools needed to maintain the balanced forces required to defend our Nation.

The majority of the current DB plan should be maintained because of its strong retention-pull effect on the Services' force profiles. Both Active and Reserve Component Service members should continue to vest for the DB plan after 20 qualifying YOS. DB retirement annuities for both components should be computed as the retired pay base[109] multiplied by 2.0 percent multiplied by YOS. All other statutes pertaining to the existing DB retirement plan should remain in effect, except that Service members whose retirement pay is otherwise grandfathered by existing law must be allowed to opt in to the new blended retirement system.

Implementing a DC plan for all Service members is more equitable than the current DB-only plan. A DC plan would promote savings and financial knowledge throughout the Force, as well as ease Service members' transition to civilian life by giving them experience with the type of retirement system they would likely have with private-sector employers after separation from service. Each Service member should be enrolled automatically in a TSP account, and an amount equal to 1 percent of each Service member's basic pay should be deposited automatically by the Uniformed Services into these accounts as a standard contribution from the Services. Service members should be auto-enrolled upon entry into Service to contribute 3 percent of their basic pay into their TSP accounts. The Uniformed Services should match a Service member's contribution up to 5 percent of basic pay. A period of 2 complete YOS should be required before a Service member can vest in the Uniformed Services' matching contributions, due to the high attrition that occurs during the first 2 YOS (approximately 25 percent for enlisted personnel and 9 percent for officers).[110]

To ensure they are able to maintain their desired force profiles, the Uniformed Services should budget additional funds for continuation pay. A new continuation pay should be authorized and paid at 12 YOS to all Service members who are willing and able to commit to remain in service for an additional 4 years, through 16 YOS. Continuation pay should be a lump-sum payment totaling 2.5 times Service members' monthly basic pay. To ensure funding for continuation pay, it should be authorized separately from other special and incentive pays and be provided for in its own budget line item. The Services should use special and incentive pays currently authorized for additional midcareer retention bonuses as needed, thereby increasing Service flexibility to create specific force profiles by Service and community.

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[108] By law, existing retirement pay is grandfathered for current retirees and Service members who joined the Uniformed Services prior to legislative enactment of this Recommendation, while also providing the option for these "grandfathered" retirees and Service members to opt in to this new blended retirement plan. See National Defense Authorization Act for Fiscal Year 2013, Pub. L. No. 112-239 § 674(h)(2) (2013) (as amended by National Defense Authorization Act for Fiscal Year 2014, Pub. L. No. 113-66, § 1095(b), 127 Stat. 672, 879 (2013)).
[109] The retired pay base should be calculated according to Chapter 7 of Title 10.
[110] Defense Manpower Data Center Data Base, accessed December 18, 2013.

This combination of an adjusted DB plan, a new DC plan, and continuation pay, provides the Services with the critical ability to maintain their current force profiles. It also maintains the value of retirement assets for Service members who serve for at least 20 years. To provide additional options to Service members, individuals should be authorized to choose full or partial lump-sum payments of their working-age DB payments, so as to allow them flexibility to receive retirement benefits based on their individual life circumstances. Full monthly retirement annuity payments should resume for all Service members at the full retirement age for Social Security benefits (age 67 for those born after 1959) to ensure Service members have a stable, regular income during normal retirement years. This full annuity should include all cost of living adjustments prior to full retirement age, such that monthly annuity payments are the same as the Service member would have received without the lump-sum payment.

While a blended retirement system would allow the Services to maintain their current force profiles, it may be desirable to alter force profiles in the future. Manpower requirements will vary with changes in the security environment, the economy, and labor markets. Service personnel managers therefore need a compensation system with which they can easily adjust pay and benefits to obtain the appropriate mix of skills and experience levels to maintain a balanced force. The Services would benefit from additional flexibility to address fundamental differences in the skill sets, training requirements, and career paths of various professions, subject to notification to and approval by the Congress. Additional flexibility in the compensation system would help the services compete for high-demand skill sets in the labor market.

Recommendations:

- The Uniformed Services should modernize the current retirement system by adding a DC element to the DB plan. The DC element should incorporate the following attributes:
  - The DC element should reside entirely in TSP.
  - The Uniformed Services should begin a monthly contribution of 1 percent of members' basic pay to Service members' respective TSP accounts upon their Service entry date. The contribution should continue until Service members reach 20 YOS and should not depend upon their participation in TSP.
  - The Uniformed Services should automatically enroll Service members in TSP upon entry into service at an amount equal to 3 percent of their basic pay. Service members should be allowed to raise or lower their TSP contribution amount or to terminate their participation at any time. Service members who terminate their participation will be reenrolled automatically the following January at the 3 percent of basic pay amount. Service members must earn basic pay in a given pay period to make TSP contributions and to receive Government contributions into their TSP accounts.
  - The Uniformed Services should begin matching each Service member's contribution to TSP, up to a maximum of 5 percent of monthly basic pay, after the completion of each member's second year of service. The matching contribution will continue until the Service member reaches 20 YOS and is dependent upon a Service member's monthly participation in the TSP.

  - Service members should be vested in their TSP after 2 complete YOS (the standard 1 percent contribution and matching contribution provided by the Uniformed Services will belong to the Service member upon that date).

- The Uniformed Services should provide continuation pay for all Service members who reach 12 YOS and are willing and able to obligate for 4 additional years.

  - All AC Service members should receive basic continuation pay equal to 2.5 times Service members' monthly basic pay.

  - All RC Service members should receive basic continuation pay equal to 0.5 times Service members' monthly basic pay, as if he/she were an AC Service member.

  - Uniformed Services should budget additional funds for continuation pay, in addition to basic continuation pay, to provide midcareer retention incentives as needed.

  - Basic and additional continuation pay should be paid from an authority to be used only for the purpose of continuation pay. Continuation pay should be budgeted in a new budget line item.

- The Uniformed Services should compute AC Service members' retirement annuity using a 2 percent multiplier times YOS, times the retired pay base. For RC members, the same calculation should be used except YOS should be computed by dividing Reserve points by 360. Both AC and RC members should continue to be eligible for retirement after completing 20 YOS.

- The Uniformed Services should provide AC Service members the choice to receive their retirement annuity in various forms: a monthly payment beginning at their retirement date; a lump sum amount at retirement, combined with a reduced monthly payment until eligibility for full social security payments, at which point the full monthly annuity would begin; or a (larger) lump sum payment with no monthly payment until eligibility for full social security payments, at which point the full monthly annuity would begin.

- The Uniformed Services should provide RC Service members the choice to receive their retirement annuity in various forms: a lump sum amount at retirement, combined with a reduced monthly payment until eligibility for full social security payments, at which point the full monthly annuity would begin; or a (larger) lump sum payment with no monthly payment until eligibility for full social security payments, at which point the full monthly annuity would begin. RC members should receive lump-sum payments upon their retirement from the RC, which will generally be before their retirement annuity begins at age 60.

- The Uniformed Services should allow any AC, RC, or retired member of the Uniformed Services who is grandfathered in the current retirement system the opportunity to opt in to the new retirement system.

- The 75 percent cap on disability retirement when a Service member uses his or her disability rating as the multiplier should be lifted. The multiplier for disability retirement when a Service member uses his or her YOS as the multiplier should be 2.0 times YOS.

- The Secretary of Defense should be given the authority to modify the years of service requirements to qualify for retirement to either fewer or a greater than 20 years of service. The purpose of these modifications is to facilitate management actions to shape the personnel profile or correct manpower shortfalls within an occupational specialty or other grouping of members, as defined by the Secretary. No modification should involuntarily impose retirement program changes on currently serving members. DoD should provide notice to the Congress regarding any proposed modification of the retirement system and be prohibited from implementing a retirement system modification unless a period of one year has elapsed following the day the Congress was provided notice of the proposed modification.

Implementation:

- 5 U.S.C. § 8440e governs the TSP program for members of the Uniformed Services.
  - 5 U.S.C. § 8440e(c) should be repealed to allow for the Services to make contributions to TSP on behalf of the Service member. 37 U.S.C. § 211(d) should also be repealed.
  - 5 U.S.C. § 8440e should be further amended to require the Services to match Service member contributions dollar-for-dollar up to 5 percent of basic pay and to require additional contributions of 1 percent of basic pay beginning at the date of entry regardless of the Service member's participation in TSP. This Code section should also be amended to require the Services to begin matching contributions at YOS 3.
  - 5 U.S.C. § 8440e should be amended to include the TSP Spousal Rights provisions as found in 5 U.S.C. § 8435.
- 5 U.S.C. § 8432 governs contributions into a participant's TSP account
  - 5 U.S.C. § 8432 should be amended to vest Service members in the automatic 1 percent after 2 years of service.
  - 5 U.S.C. § 8432 should be amended to require automatic enrollment of Service members entering service after the effective date or for Service members opting into the new retirement system. This section should also require automatic re-enrollment of Service members each January.
- A new section should be added in Chapter 5, Title 37 of the United States Code to require continuation pay to be paid at a rate of 2.5 months of basic pay at YOS 12 for Active Component Service members and 0.5 months of basic pay at YOS 12 for Reserve Component Service members. This new Code section should authorize the payment of continuation pay only if a Service member elects a 4-year service obligation. This new Code section should reference the repayment provisions of 37 U.S.C. § 373.

- A new section should be added in Chapter 5, Title 37 of the United States Code to authorize the Services to pay discretionary continuation pay equal to13 months of basic pay at YOS 12. As with Basic Continuation Pay, this new Code section should authorize the payment of continuation pay only if a Service member elects a 4-year service obligation. This new Code section should reference the repayment provisions of 37 U.S.C. § 373.

- 10 U.S.C. § 1409 should be amended to reduce the multiplier from 2.5 percent to 2.0 percent for current Service members or retirees who opt in to the new system or enter duty on or after the date of enactment. The opt-in period should begin 180 days after enactment and remain open for 180 days.

- 10 U.S.C. § 12739 should be amended to reduce the multiplier from 2.5 percent to 2.0 percent for those Service members who opt in to the modernized retirement system or enter into duty on or after the date of enactment. The opt-in period should begin 180 days after enactment and remain open for 180-days.

- 10 U.S.C. § 1401 should be amended to reduce the multiplier from 2.5 percent to 2.0 percent for those Service members who opt in to the new system or enter duty on or after the date of enactment. The 75 percent cap should be repealed.

- 33 U.S.C. § 3045 and 42 U.S.C. § 212 should be amended to conform the retirement authorities of NOAA and USPHS, respectively, to the modernized retirement system.

- 37 U.S.C. § 354 should be amended to sunset the authority to pay the Career Status Bonus at the date of enactment, to provide authority for those Service members currently receiving the bonus to continue receiving the bonus, and to allow for those Service members who are receiving the bonus and who opt in to the modernized retirement system to repay the bonus pursuant to 37 U.S.C. § 373.

- A new section should be added in Chapter 71, Title 10 of the United States Code, to authorize the Services to provide a lump sum payout of a Service member's retirement pay that he or she would be entitled to between the date of retirement and the attainment of Social Security age. This new Code section should mandate the Secretary to promulgate regulations addressing the actuarial procedure of determining the amount of the lump sum payment and for collection of SBP premiums if a lump sum is elected. The new section should allow for a 50 percent lump sum/50 percent annuity option. The new section should also allow for the resumption of annuity payments when the retiree reaches Social Security Age. This new section should also exclude Chapter 61 retirees (disability retirees) from eligibility for the lump sum payment.

- A new section should be added in Chapter 71, Title 10 of the United States Code to authorize the Services to provide a lump sum payout of an RC Service member's retirement pay that he or she would be entitled to between the age of 60 and the attainment of Social Security age. This new section would require the payment of the lump sum as of the date of retirement of the Service member, which will generally be before the retirement annuity begins at age 60. This new Code section should mandate the Secretary to promulgate regulations

addressing the actuarial procedure of determining the amount of the lump sum payment and for collection of SBP premiums if a lump sum is elected. The new section should allow for a 50 percent lump sum/50 percent annuity option. The new section should also allow for the resumption of annuity payments when the retiree reaches Social Security age. This new section should also exclude Chapter 61 retirees (disability retirees) from eligibility for the lump sum payment.

- 38 U.S.C. § 5304 should be amended to require a Service member making an election to receive a lump sum to pay back the offset from his or her VA disability compensation.
- 10 U.S.C. § 1463 should be amended to authorize lump sum payments to be paid out of the Military Retirement Fund.
- A new section should be added in Chapter 74, Title 10 of the United States Code to treat the Military Retirement Fund as a qualified trust under Internal Revenue Code § 401(a), so a Service member may roll the lump sum payment to either TSP or another qualified retirement plan.
- A new section should be added in Chapter 71, Title 10 of the United States Code to authorize the Secretary of Defense to change the years of service required of a Service member to be eligible to retire for specific military occupations.
- Any other regulations (including the Code of Federal Regulations, if applicable), instructions, directives, or internal policies necessary to conform to the recommendation described above should be reissued, updated, amended, retracted, or otherwise changed as needed.

RECOMMENDATION 2: PROVIDE MORE OPTIONS FOR SERVICE MEMBERS TO PROTECT THEIR PAY FOR THEIR SURVIVORS BY OFFERING NEW SURVIVOR BENEFIT PLAN COVERAGE WITHOUT DEPENDENCY AND INDEMNITY COMPENSATION OFFSET.

Background:
The Survivor Benefit Plan (SBP) gives retiring Service members the option to provide a lifetime monthly annuity to qualified survivors.[111] SBP provides survivors an annuity equal to 55 percent of the base retirement pay the Service member elects to cover.[112] Service members can elect coverage on any base dollar amount of their retired pay, between $300 and their full retired pay.[113] In return for this survivor annuity, the Service member's retired pay is reduced by 6.5 percent of the base amount elected.[114] The premium for plan participation is deducted from retired pay before taxes.[115] Based on the number and age of participants, investment rates of return, and mortality rate assumptions, these Service member premiums cover approximately two-thirds of the full cost of SBP coverage. DoD subsidizes the remaining amount.[116] In general, SBP payments to the covered survivor are taxable income.[117] Once the member has reached age 70 and has participated in SBP for 360 months, the reductions in the retired pay to cover the retiree's share cease.[118]

Survivors of retirees may also be entitled to Dependency and Indemnity Compensation (DIC) payments from the Department of Veterans Affairs (VA),[119] if the Service member died from: (1) a disease or injury incurred or aggravated in the line of duty while on active duty or active-duty training, (2) an injury incurred or aggravated in the line of duty while on inactive duty for training, or (3) a disability compensable under laws administered by VA.[120] DIC payments are nontaxable.[121]

A survivor is generally restricted by law from receiving the full amounts of both SBP and DIC benefits.[122] SBP benefits are offset by the amount of DIC received, with the total amount paid equal to the greater of the full SBP benefit or the DIC award.[123] DoD proposed eliminating this offset and terminating the SBP subsidy in its March 2014 white paper on retirement options.[124]

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[111] *See generally* Armed Forces, 10 U.S.C. §§ 1447-1455.
[112] Armed Forces, 10 U.S.C. § 1451(a)(1).
[113] Armed Forces, 10 U.S.C. §§ 1447(6), 1448(a)(3).
[114] Armed Forces, 10 U.S.C. § 1452(a)(1). Premiums for spouse and child, child only, and insurable interests are determined actuarially.
[115] Internal Revenue Code, 26 U.S.C. § 122(a).
[116] The SBP subsidy for FY 2013 was approximately 36 percent of the total cost per participant. Information provided by DoD Office of the Actuary, e-mail to MCRMC, October 7, 2014.
[117] Internal Revenue Code, 26 U.S.C. § 72(n) (provides that if the SBP premiums were excluded from income, then the payments received by the beneficiary are taxed; if not excluded, then SBP payments are not taxed until the beneficiary receives the same amount that was paid in premiums).
[118] Armed Forces, 10 U.S.C. § 1452(j).
[119] Veterans' Benefits, 38 U.S.C. § 1310(a).
[120] Veterans' Benefits, 38 U.S.C. § 1310(a).
[121] Veterans' Benefits, 38 U.S.C. § 5301(a).
[122] Armed Forces, 10 U.S.C. § 1450(c). The Veterans Benefits Act of 2003 eliminated the SBP-DIC offset for surviving spouses who remarry after attaining the age of 57 (see Veterans Benefits Act of 2003, Pub. L. No. 108-183, § 101, 117 Stat. 2651, 2652-2653 (2003) (codified at 38 U.S.C. § 103(d)(2)(B)).
[123] Armed Forces, 10 U.S.C. § 1450(c).
[124] Department of Defense, *Concepts For Modernizing Military Retirement,* 39, http://www.mcrmc.gov/public/docs/report/pr/Concepts_for_Modernizing_Military_Retirement_SBP_FN_15_16_27.pdf.

For additional information on Survivor Benefit Plan and Dependency and Indemnity Compensation, please see the Report of the Military Compensation and Retirement Modernization Commission: Interim Report *(Section 3.6)* and *(Section 3.6.1), respectively.*

Findings:
The SBP program has steadily become more attractive as an affordable way to provide lifetime monetary benefits to retirees' survivors. Eighty percent of Service members who retired in 2013 enrolled in SBP, compared to only 58 percent who retired in 1993.[125] This growth is even greater for enlisted personnel, 79 percent of whom enrolled upon retirement in 2013, compared to 52 percent in 1993.[126] The average number of families receiving SBP payments in a year grew by 87.9 percent from 1993 to 2013 (from 172,425 to 323,903).[127] In that same time period, SBP payments to beneficiaries rose 216.7 percent (from $1.2 billion to $3.8 billion).[128] The majority (80 percent) of retiring Service members elect SBP coverage on their full retired pay.[129] This growth is largely due to DoD's subsidy of SBP costs. If the program were not subsidized, Service member costs would total 11.25 percent of the base amount elected based on FY 2013 actuarial figures compared to 6.5 percent currently paid.[130]

Service members broadly participate in SBP, yet the current DIC offset of SBP is unpopular. For example, the Military Officers Association of America reported, "It is apparent that the [SBP–DIC] offset is not only unfair but also unjustly affects so many surviving spouses."[131] Similarly, the American Veterans stated, "The offset of SBP against DIC is inequitable because it penalizes survivors of military retired veterans whose deaths are under circumstances warranting indemnification from government separate from the annuity funded by premiums paid by veterans from retired pay."[132] The Disabled American Veterans also concluded, "Any offset between longevity military retired pay and VA compensation is unjust because no duplication of benefits is involved."[133] In FY 2013, 323,903 survivors received SBP benefits. Of these, 59,302 (20.7 percent) also received DIC payments, making them subject to the SBP-DIC offset.[134] The effect of the offset is somewhat mitigated by the reimbursement of SBP premiums proportional to the DIC offset provided to survivors.

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[125] Department of Defense, Office of the Actuary, *Statistical Report of the Military Retirement System, Fiscal Year 2013,* 227, accessed December 11, 2014, http://actuary.defense.gov/Portals/15/Documents/statbook13.pdf.
[126] Ibid.
[127] Ibid, 228.
[128] Ibid, 227. Report data and information provided by the Office of the Actuary stated that of the 2013 payments to survivors, totaling $3.82 billion, $1.24 billion (32 percent) were funded from SBP premiums and $1.2 (32 percent) billion (37 percent) from interest earned on past premiums, leaving the remaining $1.38 billion (36 percent) subsidized by DoD through appropriated funding.
[129] DoD, Office of the Actuary, e-mail to MCRMC, September 19, 2014. E-mail correspondence also stated that another 8 percent of Service members selected coverage on 50-100 percent of retired pay, with the remaining 12 percent choosing to cover less than 50 percent of retired pay.
[130] DoD, Office of the Actuary, e-mail to MCRMC, October 8, 2014.
[131] "AMAC Storming the Hill Event 2013," Military Officers Association of America, accessed November 6, 2014, http://www.moaa.org/amacstorming/.
[132] American Veterans, *Resolution 12-13: Survivor Benefit Plan,* accessed October 6, 2014, http://www.amvets.org/pdfs/legislative_pdfs/2012/12-13-survivor-benefit-plan.pdf.
[133] "DAV Releases Mid-Winter Talking Points," Disabled American Veterans, accessed October 6, 2014, http://www.dav.org/learn-more/news/2012/dav-releases-mid-winter-talking-points/.
[134] DoD, Office of the Actuary, e-mail to MCRMC, October 7, 2014.

Below are examples of Service member comments received by the Commission on SBP–DIC offset:

> *SBP and DIC are two separate programs and should not be offset. Retirees can get concurrent receipt [if eligible].*[135]

> *[SBP]—hopefully without [DIC] offset—is going to take care of my wife who held things together through my deployments.*[136]

> *The SBP–DIC offset takes thousands of dollars out of those families' pockets that really need it. I am asking that the SBP–DIC offset be eliminated. I know this has been an ongoing issue, but it is time to do the right thing.*[137]

The DoD proposal to eliminate SBP–DIC offset would raise the cost of the SBP for all Service members, while reducing their choices. The DoD proposal would provide Service members a choice to elect base coverage of either 25 percent or 50 percent of their retired pay. These options would cost Service members 5 percent and 10 percent of their retired pay, respectively.[138] These options eliminate the current subsidy and would make SBP coverage more expensive for all Service members, including those who never receive DIC. Furthermore, offering only two options reduces Service members' flexibility to tailor SBP coverage to their individual financial situations.

Conclusions:
Survivor benefits could be improved by granting Service members the option of new SBP coverage that is not offset by DIC. Service members should continue to have the option to choose the current, subsidized SBP coverage. Alternatively, they should have an option of fully funded SBP coverage that would not be subject to offset by DIC. The amount paid by Service members should vary according to DoD actuarial calculations of cost, based on number and age of participants, investment rates of return, and mortality rate assumptions. Based on current figures, this new coverage would require an 11.25 percent reduction of the Service members' retired pay base amount selected.[139] Survivors of Service members who elect this new SBP coverage could derive a greater overall benefit by receiving full SBP and DIC payments.

Recommendations:

- The existing SBP program should be maintained for Service members who want to elect subsidized coverage that would remain subject to the SBP–DIC offset.

- A new SBP program should be implemented for which Service members would fully fund SBP costs, but would no longer be subject to offset by DIC payments. With unsubsidized coverage, Service members' retired pay should be reduced by the full cost of the benefit as determined annually by DoD Office of the Actuary. As an example, based on FY 2013 data, the amount would be 11.25 percent of the base amount elected. The base amount should not exceed 100 percent of

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[135] MCRMC letter writer, comment form submitted via MCRMC web site, April 4, 2014.
[136] MCRMC letter writer, comment form submitted via MCRMC web site, November 15, 2013.
[137] MCRMC letter writer, comment form submitted via MCRMC web site, November 4, 2013.
[138] Department of Defense, *Concepts For Modernizing Military Retirement*, 14, www.mcrmc.gov/public/docs/report/pr/Concepts_for_Modernizing_Military_Retirement_SBP_FN_15_16_27.pdf.
[139] DoD, Office of the Actuary, e-mail to MCRMC, October 8, 2014.

the member's retired pay consistent with existing statute. Survivors of the Service members who select unsubsidized coverage would receive full SBP and DIC payments without offset. Although this option has a greater out-of-pocket cost to the Service member, it provides a greater overall benefit.

- The Services should provide retiring Service members and their spouses with an individualized, detailed analysis of the costs and benefits of the alternative SBP options, including potential costs and income from the current and new SBP programs.

- Those currently participating in SBP should be provided a one-time opportunity during the SBP open period to opt in to the new program.

Implementation:

- SBP is governed by 10 U.S.C. Chapter 73, Subchapter II. 10 U.S.C. § 1452 should be amended to allow for Service members to elect the new SBP option. Service members who make the election will pay an annually determined premium and not be subject to the DIC offset found in 10 U.S.C. § 1450(c). This section should be further amended to require the Secretary of Defense to promulgate regulations allowing a Service member to elect Spouse and Child Coverage or Child Only Coverage without being subject to the DIC offset found in 10 U.S.C. § 1450(c).

- 10 U.S.C. § 1452 should be amended to require the Services to provide retiring Service members and their spouses with an individualized, detailed analysis of the costs and benefits of the alternative SBP options, including potential costs and income from the current and new SBP programs.

- Any other regulations (including the Code of Federal Regulations, if applicable), instructions, directives, or internal policies necessary to conform to the recommendation described above should be reissued, updated, amended, retracted, or otherwise changed as needed.

RECOMMENDATION 3: PROMOTE SERVICE MEMBERS' FINANCIAL LITERACY BY IMPLEMENTING A MORE ROBUST FINANCIAL AND HEALTH BENEFIT TRAINING PROGRAM.

Background:
DoD has established a policy for Service family readiness that sets guidelines for personal financial management (PFM) training.[140] According to this policy, Service members and their families are provided with "tools and information they need to develop individual strategies to achieve financial goals and address financial challenges."[141] The intent of this policy is to incorporate personal and family financial objectives into the "organizational goals related to the recruitment, retention, morale, and operational readiness of the military force."[142] Marine Corps policy states, "instilling financial responsibility and educating Marines and their families about financial matters helps them control their current finances, save for the future, and reduces distractions from mission focus."[143] Similarly, Navy "operational commanders have identified financial decision making and resultant financial problems as having a serious negative impact on the stability of servicemembers and families, as well as a debilitating effect on operational readiness, morale, and retention."[144]

The Services implement PFM training for their members according to their internal policies.[145] The Army, for example, provides mandatory training to junior enlisted personnel prior to their initial permanent change of station move and for personnel who "abused and misused check-cashing privileges."[146] The Navy provides a series of training courses for enlisted personnel, as well as both personal and leadership training for its officers.[147] The Air Force provides training for all personnel upon arrival at their first duty stations and prior to deployments to facilitate preparation for extended absences.[148] Each Service provides financial counseling for Service members and their families.[149] Topics covered by the financial counseling component of PFM training include budgeting, banking, saving, credit and debt management, investing, taxes, insurance, estate planning, and predatory lending practices.[150]

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[140] Military Family Readiness, DoDI 1342.22 (2012).
[141] Ibid, 15.
[142] Ibid, 2.
[143] Personal Financial Management Education Provided by Non-Federal Entities, MARADMIN 061/13 (2013).
[144] United States Navy Personal Financial Management Education, Training, and Counseling Program, OPNAVINST 1740.5B CH-2, 1-2 (2010).
[145] Army Community Service, Army Regulation 608-1 (2013). Personal Financial Management Education Provided by Non-Federal Entities, MARADMIN 061/13 (2013). United States Navy Personal Financial Management Education, Training, and Counseling Program, OPNAVINST 1740.5B CH-2 (2010). Airman and Family Readiness Centers, Air Force Instruction 36-3009 (2014).
[146] Army Community Service, Army Regulation 608-1, 23 (2013).
[147] United States Navy Personal Financial Management Education, Training, and Counseling Program, OPNAVINST 1740.5B CH-2, Enclosure 5 (2010).
[148] Airman and Family Readiness Centers, Air Force Instruction 36-3009, 16 (2014).
[149] Army Community Service, Army Regulation 608-1 (2013). Personal Financial Management Education Provided by Non-Federal Entities, MARADMIN 061/13 (2013). United States Navy Personal Financial Management Education, Training, and Counseling Program, OPNAVINST 1740.5B CH-2 (2010). Airman and Family Readiness Centers, Air Force Instruction 36-3009, 16 (2014).
[150] Military Family Readiness, DoDI 1342.22, 16 (2012).

For additional information on financial literacy in the Military Services, please see the Report of the Military Compensation and Retirement Modernization Commission: Interim Report *(Section 3.9).*

Findings:
Existing financial literacy programs do not adequately educate Service members and their families on financial matters. According to the 2013 Blue Star Families Annual Lifestyle Survey, only 12 percent of Service member respondents indicated they were receiving financial education from Service member training.[151] Furthermore, 90 percent indicated they would like to receive more preventive financial education, and 82 percent indicated their spouse should be included in financial readiness courses.[152]

Academic research showed a correlation between Service member financial readiness training and improved financial readiness among Service members.[153] A 2012 study by the Financial Industry Regulatory Authority (FINRA) concluded that Service respondents, though performing well in many areas, often engage in expensive credit card and nonbanking practices.[154] Specifically, Service personnel regularly make minimum payments, pay late fees, or pay over-the-limit charges on credit cards. They also commonly borrow from nonbank financial institutions (e.g., pawn shops). Service member comments, such as the following, also indicate a desire for additional training.

> *I wish there was more mandatory education on retirement savings, in either the TSP or IRAs. Most enlisted personnel, including higher ranks do not understand how they work or the benefits associated with them.*[155]

> *The key to successful retirement is educating people financially and in the art of living well but inexpensively.*[156]

This shortfall in financial literacy training has been a long-standing issue. "In May 2003, DoD formally launched a financial readiness campaign to address Service members' poor financial habits and increase financial management awareness, savings, and protection against predatory practices."[157] DoD's balanced scorecard, developed in FY 2003, included indicators of personal finances for which evaluation was based on junior enlisted personnel's self-reported financial condition and ability to make timely payments of bills.[158] DoD has formed partnerships with nonprofit organizations and Government agencies to provide Service members with financial

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[151] Blue Star Families, 2013 Military Family Lifestyle Survey, Comprehensive Report, 34, accessed Dec. 10, 2014, http://www.mcrmc.gov/public/docs/report/pr/BlueStarFamilies_2013MilitaryFamilyLifestyleSurvey_Comprehensive_Report_May2013_p34_FinLit_FN_12-13-24.pdf.
[152] Ibid.
[153] William Skimmyhorn, Office of Economic and Manpower Analysis, Department of Social Sciences, United States Military Academy, *Assessing Financial Education: Evidence from a Personal Financial Management Course*, accessed December 11, 2014, http://www.globalfinlitsummit.com/wp-content/uploads/2013/11/Assessing-Financial-Education-Skimmyhorn.pdf.
[154] FINRA Investor Education Foundation, *Financial Capability in the United States: 2012 Report of Military Findings*, 14, http://www.usfinancialcapability.org/downloads/NFCS_2012_Report_Military_Findings.pdf.
[155] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[156] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[157] Government Accountability Office, *Military Bankruptcies*, GAO 04-465R, 2, accessed December 11, http://www.gpo.gov/fdsys/pkg/GAOREPORTS-GAO-04-465R/content-detail.html.
[158] Ibid, 7.

assistance programs."[159] These partners encourage general financial fitness and well-being."[160]

Weaknesses in financial literacy are adversely affecting Service members and their families. A bad credit report, a debt-collection action, or other financial problem can be devastating for a Service member's career and can affect the mission readiness of a unit, which often cannot use a Service member who has lost a security clearance due to financial problems.[161] In FY 2013, financial issues were the fourth highest-ranking reason for losing security clearances, costing 1,129 military Service members their security clearance.[162]

Costs associated with increasing financial literacy training would be offset, at least partially, by associated savings. DoD estimated it would save between $13 million and $137 million annually by providing Service members and their families more protection against high-cost debt, consequently reducing the number of troops involuntarily separated because of financial problems.[163] According to these estimates, between 4,703 and 7,957 military personnel would otherwise be involuntarily separated because of financial distress. The cost of separating one Service member can be as much as $57,333.[164] Loss of experienced mid-grade noncommissioned officers (NCOs) may be even costlier because such losses directly degrade mission effectiveness.[165] Financial concerns detract from mission focus and often require attention from Commanding Officers and senior NCOs to resolve outstanding debts and other credit issues.[166]

Conclusions:
Service members' financial literacy should be improved for the benefit of Service members, their families, force readiness, and DoD cost-effectiveness. Implementing a comprehensive PFM training program would help educate Service members and provide them with enhanced tools to better protect their finances. Current training programs could be better tailored to the behaviors of today's Service members. Financial education should be provided to Service members to develop a culture of personal financial responsibility. Training should contain real-world, practical lessons packaged to engage the youngest cohort of Service members. Technology-based instruction should be enhanced with in-person coaching as necessary.[167] A more

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[159] Government Accountability Office, *Servicemembers Civil Relief Act: Information on Mortgage Protections and Related Education Efforts*, GAO-14-221, 16, http://www.gao.gov/assets/670/660398.pdf.
[160] Ibid, 17.
[161] Government Accountability Office, *Personnel Security Clearances: Additional Guidance and Oversight Needed at DHS and DOD to Ensure Consistent Application of Revocation Process*, GAO-14-640, 18, accessed December 11, 2014, http://www.gao.gov/products/GAO-14-640.
[162] Ibid.
[163] 79 Fed. Reg. 58601 (September 29, 2014), *See also* "Shielding troops from high interest rates may help DoD," *Military Times*, accessed October 8, 2014, http://www.militarytimes.com/article/20141008/NEWS/310080053/Shielding-troops-from-high-interest-rates-may-help-DoD.
[164] 79 Fed. Reg. 58601 (September 29, 2014), accessed December 11, 2014, http://www.gao.gov/assets/320/315051.pdf, estimating each separation costs the Department $52,800 in 2009 dollars). The cost of $57,333 is calculated in 2013 dollars (through December 2013), using the U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index, All Urban Consumers (CPI-U).
[165] Department of Defense, *Report: Enhancement of Protections on Consumer Credit for Members of the Armed Forces and Their Dependents*, 5, accessed December 11, 2014, http://www.consumerfed.org/pdfs/140429_DoD_report.pdf.
[166] Ibid.
[167] Consumer Financial Protection Bureau, *Office of Service Member Affairs Financial Fitness Forum, Building Bridges between the Financial Services Industry and the Department of Defense*, accessed December 11, 2014 http://files.consumerfinance.gov/f/201209_cfpb_Financial-Fitness-Whitepaper.pdf.

robust PFM education program could save DoD millions of dollars per year by reducing the number of troops involuntarily separated due to financial problems. PFM training would become even more important with adoption of the Commission's recommendations on items such as the Thrift Savings Plan (TSP), continuation pay, and retirement options (see Recommendation 1).

Educating Service members on health care benefits would also prepare them for the increased choice and personal control that Recommendation 6 in this Report would provide Service members. Many members enter the Service shortly after high school or college and therefore have not likely purchased or selected through an employer various health benefits. Accordingly, Service members should receive mandatory health benefits seminars when they register one or more dependents, and when they are nearing retirement from the Service. After completing the course, Service members should better understand how health insurance works, how plan types are structured and the differences among them, how to complete enrollment forms, and how to manage the Basic Allowance for Health Care (see Recommendation 6). Such a course would also guide Service members as they proceed through their Service careers and ultimately reenter the civilian sector.

Recommendations:

- DoD should increase the frequency and strengthen the content of financial literacy training. At a minimum, training and counseling should be provided during initial training, upon arrival at the first duty station (upon arrival at each duty station for E4/O3 and below), at the vesting point for the TSP program, on dates of promotion (up to pay grades E5 and O4), for major life events (e.g., marriage, divorce, birth of first child, disabling sickness or condition), during leadership and pre- and postdeployment training, at transition points (e.g., AC to RC, separation, and retirement), and upon request of the individual.

- DoD should enhance the content of financial literacy training. One-time training should be offered to educate the entire force on implications of this Commission's recommendations. Also, training on health care insurance options and other recommendations from this Commission should be added to existing curriculum.

- DoD should hire professional training firms to provide financial literacy training. DoD should consider if these professional trainers should be certified financial advisors. Outsourcing training requirements may require additional funding, but would ensure this critical topic is not assigned as a secondary responsibility. Improving financial literacy would also reduce long-term personnel costs, which could defray additional training costs.

- Messaging from the Secretary of Defense; Deputy Secretary of Defense; Chairman, Joints Chiefs of Staff; and Service Chiefs should reinforce the importance of financial literacy from both readiness and quality of life perspectives, and emphasize the popularity of similar programs in other countries. The Deputy Secretary of Defense should also be assigned responsibility for ensuring financial literacy training in his or her role as DoD's Chief Management Officer. For example, the Australian Defence Force created a similar literacy program in 2006, and 95 percent of participants indicated the

sessions they attended met their needs.[168] Support and messaging from senior leaders was instrumental in the success of the Australian financial literacy program.

- DoD should require Defense Manpower Data Center (DMDC) to survey the force on the status of financial literacy and preparedness and use the results as a benchmark from which to evaluate and update the training and education as needed. Results of the initial survey and follow-on surveys should be provided to the Congress.

- DoD should strengthen partnerships with other federal and nonprofit organizations (e.g., President's Advisory Council on Financial Capability for Young Americans, the Financial Literacy Education Council, and individual Service emergency relief organizations).

- DoD should provide an online budget planner with archival history capability for each Service member. As changes in pay occur (e.g., promotion, arrival at duty station with different BAH rate, dependent status), the budget planner should update automatically and prompt the Service member to complete it.

- The Leave and Earnings Statement (LES) should be restructured to reflect changes to compensation made as a result of this Commissions' recommendations, to include TSP balances (current value and projected value at 20-year point), and also to provide a more accurate accounting by displaying the value of benefits paid by the Government for the Service member (similar to a Federal civilian employee's LES).

Implementation:

- 10 U.S.C. § 992 provides the statutory authority for consumer education programs throughout DoD and should be amended to reflect the program changes described in the recommendation. This section should be amended to provide for changes to the frequency of financial literacy training. The language should, at a minimum, indicate that training will be provided:

  - during initial training;
  - upon arrival at the first duty station;
  - upon arrival at each subsequent duty station for each Service member ranked E4/O3 and below;
  - on date of promotion (up to pay grades E5 and O4);
  - at the vesting point for the TSP program;
  - major life events (e.g., marriage, divorce, birth of first child, and disabling sickness or condition);
  - during leadership training;

[168] Air Commodore Robert Brown, briefing with MCRMC, February 19, 2014.

- during pre- and postdeployment training;
- at transition points (e.g., Active Component to Reserve Component, separation, and retirement); and
- upon the request of the individual.

This section should also mandate the Secretary to implement regulations addressing other triggering events when financial literacy training will be mandatory.

- 10 U.S.C. § 992 should be further amended to expand the definition of "financial services." This new definition should include health insurance options, budget management, TSP matching, retirement lump-sum options (including rollover options and tax consequences), SBP options, and any other topics the Secretary determines are needed to educate Service members.
- 10 U.S.C. § 992 should be further amended to require DMDC to regularly survey the force on the status of financial literacy and preparedness in its "Status of Force" survey. Legislation should mandate that the Services use the results from this survey as a benchmark to evaluate financial training and to update financial training as necessary. The legislation should mandate that DoD report the results of the initial survey and any follow-on surveys to the Congress.
- Additional legislation should require current Service members to receive education on the implications of the Commission's recommendations within 6 months of enactment.
- A Sense of Congress provision should be enacted to encourage DoD to strengthen partnerships with other federal agencies and nonprofit organizations to improve the financial literacy and preparedness of members of the Armed Forces, as well as to encourage the Chairman of the Joints Chiefs of Staff and the Service Chiefs to provide support for the new financial literacy training program.
- Any other regulations (including the Code of Federal Regulations, if applicable), instructions, directives, or internal policies necessary to conform to the recommendation described above should be reissued, updated, amended, retracted, or otherwise changed as needed. Such as:
  - Volume 8, Chapter 9 of the DoD Financial Management Regulation (FMR) provides the elements required on a Service member's LES. Chapter 9 should be amended to reflect the Service member's Basic Allowance for Health Care, TSP balance, and a more accurate accounting of benefits paid by the Government for the Service member.
  - Chapter 9 of the DoD FMR should be further amended to require DoD to provide an online budget planner for Service members that is updated regularly at promotion points and changes in dependency status.

RECOMMENDATION 4: INCREASE EFFICIENCY WITHIN THE RESERVE COMPONENT BY CONSOLIDATING 30 RESERVE COMPONENT DUTY STATUSES INTO 6 BROADER STATUSES.

Background:
Although Active Component members have a single duty status—active duty—Reserve Component (RC) members serve under a variety of duty statuses. "Duty status reflects a reservist's availability to perform a specific mission, function, or job, and is linked to appropriated funds and legal authorities."[169] Titles 10, 32, and 14 of the U.S. Code provide the authorities for the statuses, as well as various DoD policies (see Table 3). The status under which an RC member serves differs depending on a variety of factors: whether the status is active duty, full-time National Guard duty, or inactive duty; whether the duty is voluntary or involuntary; and whether the RC member's mission is training, support, or operations.[170] Statuses may differ based on the type of appropriation that funds the status, (i.e., Military Personnel, Reserve Personnel, or National Guard Personnel appropriation).[171] Statutory limitations for overall RC end strength and the number of RC members who may be used for a specific purpose may require a change in status during an RC member's period of duty.[172] In the current system, each time the purpose or the source of appropriation for an RC member's orders changes, existing orders must be cancelled and new orders must be issued.[173] Table 3 displays the three RC authorities and various statuses that may be used to call an RC member to duty.[174]

Table 3. Current Reserve Component Statutory Authorities and Duty Statuses

Title 10 United States Code		
Full mobilization	Disciplinary action	Aid for state governments
Partial mobilization	Annual active duty (up to 30 days)	Enforce federal authority
Presidential reserve call-up	Additional training and operational support	National Guard called to federal service
Major disaster/emergency response	Medical evaluation and treatment	Additional training periods
Preplanned combatant command	Medical care (duty < 30 days)	Additional flight training periods
Captive status	Retiree recall	Readiness management periods
Unsatisfactory participation (45 days)	Muster duty	Funeral honors duty
Unsatisfactory participation (24 months)	Duty at the National Guard Bureau	
Title 32 United States Code—National Guard		
Required training and other duty	Additional training periods	Readiness management periods
Additional training and other duty	Additional flight training periods	Funeral honors duty
Title 14 United States Code—U.S. Coast Guard		
Emergency augmentation		

[169] Michelle Dolfini-Reed and Darlene E. Stafford, *Identifying Duty Status Reforms Needed to Support an Operational Reserve*, CRM D0021656.A2, (Alexandria, VA: CNA, 2010), 1.
[170] Department of Defense, Office of the Undersecretary of Defense for Personnel and Readiness, *The Report of the Eleventh Quadrennial Review of Military Compensation*, 133, accessed December 15, 2014, http://militarypay.defense.gov/reports/qrmc/11th_QRMC_Supporting_Research_Papers_(932pp)_Linked.pdf.
[171] Ibid.
[172] Ibid.
[173] Michelle Dolfini-Reed and Darlene E. Stafford, *Identifying Duty Status Reforms Needed to Support an Operational Reserve*, CRM D0021656.A2, (Alexandria, VA: CNA, 2010), 24-25.
[174] Department of Defense, Office of the Undersecretary of Defense for Personnel and Readiness, *The Report of the Eleventh Quadrennial Review of Military Compensation*, 134, accessed December 15, 2014, http://militarypay.defense.gov/reports/qrmc/11th_QRMC_Supporting_Research_Papers_(932pp)_Linked.pdf.

Findings:
The numerous criteria for determining RC statuses can make it difficult for operational commanders to call RC members to duty.[175] Indeed, the current RC status system "is complex, aligns poorly to current training and mission support requirements, fosters inconsistencies in compensation and complicates rather than supports effective budgeting."[176] Additionally, the RC status system causes members to experience disruptions in pay and benefits as they transition among different duty statuses.[177] For example, they may have gaps in health care coverage when there are gaps in orders. These disruptions discourage volunteerism and impede an ideal continuum of service.[178] Military Services sometimes use "the RC duty statuses in ways that are inconsistent with their intended purposes."[179]

The challenges of this complex RC status system have been exacerbated by how the RC has been employed during the past 13 years of war. The current duty status system was developed to support a "strategic Reserve," in which RC members mainly participated in inactive duty and annual training.[180] "Operational missions were limited."[181] Since 2001, however, RC members have served more frequently on active duty and have had to transition numerous times between active and inactive-duty statuses.[182] Duty statuses have not evolved to keep pace with how RC members are being employed. Instead, they have expanded in piecemeal fashion as the use of the RC has changed and grown.[183] As a result, both Service members and the Services are adversely affected by the complexity of the status system and the consequential issues that arise.

Simplifying RC statuses has broad support. In general, the Reserve Component is supportive of a more streamlined, consolidated RC duty status system.[184] The Commission on the National Guard and Reserves (2008),[185] the Eleventh Quadrennial Review of Military Compensation (2011),[186] the Reserve Forces Policy Board (2013),[187] the National Commission on the Structure of the Air Force (2014),[188] and the House

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[175] Commission on the National Guard and Reserves, *Transforming the National Guard and Reserves into a 21st-Century Operational Force*, 2008, 160.
[176] Office of the Assistant Secretary of Defense for Reserve Affairs, *Review of Reserve Component Contributions to National Defense*, December 2002, 77.
[177] Michelle Dolfini-Reed and Darlene E. Stafford, *Identifying Duty Status Reforms Needed to Support an Operational Reserve*, CRM D0021656.A2, (Alexandria, VA: CNA, 2010), 15.
[178] Michelle Dolfini-Reed and Darlene E. Stafford, Identifying Duty Status Reforms Needed to Support an Operational Reserve, CRM D0021656.A2, (Alexandria, VA: CNA, 2010), 15, 25. Commission on the National Guard and Reserves, *Transforming the National Guard and Reserves into a 21st-Century Operational Force*, 2008, 160.
[179] Michelle Dolfini-Reed and Darlene E. Stafford, Identifying Duty Status Reforms Needed to Support an Operational Reserve, CRM D0021656.A2, (Alexandria, VA: CNA, 2010), 25.
[180] Ibid, 24-25.
[181] Ibid, 25.
[182] Ibid, 24-25.
[183] Department of Defense, Office of the Undersecretary of Defense for Personnel and Readiness, *The Report of the Eleventh Quadrennial Review of Military Compensation*, 133, accessed December 15, 2014, http://militarypay.defense.gov/reports/qrmc/11th_QRMC_Supporting_Research_Papers_(932pp)_Linked.pdf.
[184] MCRMC staff meetings with officials from the Navy Reserve (July 8, 2014), the Marine Corps Reserve (June 23, 2014), the Army Reserve (September 18, 2014) and Air Force Reserve (September 18, 2014).
[185] Commission on the National Guard and Reserves, *Transforming the National Guard and Reserves into a 21st-Century Operational Force*, 2008, 156.
[186] Department of Defense, Office of the Undersecretary of Defense for Personnel and Readiness, *The Report of the Eleventh Quadrennial Review of Military Compensation*, 146, accessed December 15, 2014, http://militarypay.defense.gov/reports/qrmc/11th_QRMC_Supporting_Research_Papers_(932pp)_Linked.pdf.
[187] Department of Defense, Office of the Secretary of Defense Reserve Forces Policy Board, *Report of the Reserve Forces Policy Board on Reserve Component Duty Status Reform: Info Memo*, 2013, 1.
[188] National Commission on the Structure of the Air Force, *Report to the President and Congress of the United States*, 2014, 50.

Report on the FY 2015 National Defense Authorization Bill (House Report 113-443)[189] all recommended the number of RC duty statuses be reduced.

Conclusions:
The Services and Service members would benefit from a streamlined, consolidated Reserve Component status system. Streamlining the RC statuses reduces challenges associated with the current system. Without such changes, RC members may be discouraged from volunteering for active duty and commanders would continue to have problems calling RC personnel to duty when they are needed to support operational missions, impeding the effectiveness of those missions. Simplifying RC statuses supports both operational and training missions, better enables the purpose of RC duties to be tracked to justify budget requests, and facilitates a seamless process for RC members.

Recommendations:

- The Congress should replace the 30 current Reserve Component duty statuses with six broader statuses (see Table 4). This new RC status structure should principally focus on Active Duty, Inactive Duty, and full-time National Guard Duty as the three primary statuses.

- The Congress should stipulate that, in this new system, orders should be issued only when an authority changes. When a duty status, purpose, or funding source changes, orders need only be amended, accordingly. This change would allow uninterrupted RC service.

Table 4. Streamlined Reserve Component Duty Statuses

Title 10, United States Code – Armed Forces		
New Status	**Current Statuses to be Consolidated into New Statues**	
Active Duty	Full mobilization Partial mobilization Presidential reserve call-up Major disaster/emergency response Preplanned combatant command mission call-up Captive status Unsatisfactory participation (45 days) Unsatisfactory participation (24 months)	Disciplinary action Annual active duty (up to 30 days) Additional training and operational support Duty at the National Guard Bureau Medical evaluation and treatment Medical care (duty < 30 days) Retiree recall
Inactive Reserve Service	Muster duty Additional training periods Additional flight training periods	Readiness management periods Funeral honors duty
Federal Service (Presidential call-up)	Aid for state governments Enforce federal authority	National Guard called to federal service
Title 32, United States Code – National Guard		
Full-Time National Guard	Required training and other duty Additional training and other duty	
Inactive National Guard	Additional training periods Additional flight training periods	Readiness management periods Funeral honors duty
Title 14, United States Code – Coast Guard		
Active Duty	Emergency augmentation	

[189] National Defense Authorization Act for Fiscal Year 2015 (House Report 113-446), Report of the Committee on Armed Services House of Representatives on H.R. 4435, 142-143, 2014.

Implementation:

- Chapter 1209, Title 10 of the United States Code should be amended by adding three new sections for the Reserve Component of the Armed Forces to consolidate current statuses into Active Duty, Inactive Reserve Service (i.e., Inactive Duty Training), or Federal Service (Presidential Call-Up).

- 32 U.S.C. § 502 should be amended to consolidate current statuses into either Full-Time National Guard Duty or Inactive National Guard Service.

- 14 U.S.C. § 712 should be amended to reflect the consolidation of statuses.

- The Active Duty authority statutes in Titles 10, 14, and 32 of the United States Code should be amended to contain language that stipulates changes to duty statuses, purpose, or funding require amendments to existing orders, rather than issuance of new orders. This revised language should also stipulate no break in service should be recorded if orders are changed and the break in service was 24 hours or fewer.

- The following statutes that currently authorize calling up Reserve Component members should be amended or repealed to reflect the duty status consolidation:[190]

Table 5. Current Reserve Component Duty Statuses to be Amended/Repealed

	Legal Authority	Purpose of Duty	Applies To	Type of Duty	
Training	10 U.S.C. 10147	Annual Training/Drill Requirement	Reserve Only	AD/IDT	Involuntary
	10 U.S.C. 12301(b)	Annual Training	Reserve & National Guard	AD	Involuntary
	10 U.S.C. 12301(d)	Additional/Other Training Duty	Reserve & National Guard	AD	Voluntary
	32 U.S.C. 502(a)	Annual Training/Drill Requirement	National Guard Only	FTNGD/tD	Involuntary
	32 U.S.C. 502(f)(1)(A)	Additional Training Duty Additional/Other	National Guard Only	T FTNGD	Involuntary
	32 U.S.C. 502(f)(1)(B)	Training Duty	National Guard Only	FTNGD	Voluntary
Support	10 U.S.C. 12301(d)	AGR Duty/Operational Support/Additional	Reserve & National Guard	AD	Voluntary
	10 U.S.C. 12304b	Duty	Reserve & National Guard	AD	Involuntary
	32 U.S.C. 502(f)(1)(B)	Preplanned/Preprogrammed CCDR Support	National Guard Only	FTNGD	Voluntary
	32 U.S.C. 502(f)(1)(A)	AGR Duty/Operational Support/Additional Duty Other Duty	National Guard Only	FTNGD	Involuntary
Mobilization	10 U.S.C. 12301(a)	Full Mobilization	Reserve & National Guard	AD	Involuntary
	10 U.S.C. 12302	Partial Mobilization	Reserve & National Guard	AD	Involuntary
	10 U.S.C. 12304	Presidential Reserve Call-up	Reserve & National Guard	AD	Involuntary
	10 U.S.C. 12304a	Emergencies and Natural Disasters	Reserve Only	AD	Involuntary
	14 U.S.C. 712	Emergencies and Natural Disasters	USCGR Only	AD	Involuntary

[190] Uniform Reserve training, and retirement categories for the Reserve Components, DoD Instruction 1215.06, Appendix to Enclosure 4, 22, 2014.

	Legal Authority	Purpose of Duty	Applies To	Type of Duty	
	10 U.S.C. 12503	Funeral Honors	Reserve & National Guard	ID	Voluntary
	32 U.S.C. 115	Funeral Honors	National Guard Only	ID	Voluntary
	10 U.S.C. 12319	Muster Duty	Reserve & National Guard	ID	Involuntary
	10 U.S.C. 12301(h)	Medical Care	Reserve & National Guard	AD	Voluntary
	10 U.S.C. 12322	Medical Evaluation and Treatment	Reserve & National Guard	AD	Voluntary
	10 U.S.C. 688	Retiree Recall	Reserve & National Guard	AD	Involuntary
	10 U.S.C. 802(d)	Disciplinary	Reserve & National Guard	AD	Involuntary
Other	10 U.S.C. 10148	Unsatisfactory Participation (up to 45 days)	Reserve & National Guard	AD	Involuntary
	10 U.S.C. 12301(g)	Captive Status	Reserve & National Guard	AD	Involuntary
	10 U.S.C. 12303	Unsatisfactory Participation (up to 24	Reserve & National Guard	AD	Involuntary
	10 U.S.C. 12402	months)	National Guard Only	AD	Voluntary
	10 U.S.C. 331	Duty at National Guard Bureau	National Guard Only	FS	Involuntary
	10 U.S.C. 332	Insurrection	National Guard Only	FS	Involuntary
	10 U.S.C. 12406	Insurrection	National Guard Only	FS	Involuntary
		Insurrection			

AD - Active Duty • CCDR - Combatant Command • ID - Inactive Duty • IDT - Inactive Duty Training
FTNGD - Full Time National Guard Duty • FS - Federal Service • PRC – Presidential Reserve Call-up

- Any other regulations (including the Code of Federal Regulations, if applicable), instructions, directives, or internal policies necessary to conform to the recommendation described above should be reissued, updated, amended, retracted, or otherwise changed as needed.

HEALTH BENEFITS

RECOMMENDATION 5: ENSURE SERVICE MEMBERS RECEIVE THE BEST POSSIBLE COMBAT CASUALTY CARE BY CREATING A JOINT READINESS COMMAND, NEW STANDARDS FOR ESSENTIAL MEDICAL CAPABILITIES, AND INNOVATIVE TOOLS TO ATTRACT READINESS-RELATED MEDICAL CASES TO MILITARY HOSPITALS.

Background:
Joint military readiness is a critical function of modern military warfare, and the failure to be ready is a threat to deployed forces and to our national security. As evidenced by the draw-down of military forces following Operation DESERT STORM, which includes the end of the Cold War, and leading into the period before September 11, 2001, military readiness suffers during peacetime. In the years since September 11, 2001, DoD has learned hard lessons in combat and in joint operations. Losing or forgetting these hard-won lessons, as the Nation contends with fiscal challenges and declining budgets, is a substantial and ill-afforded risk. With the drawdown of combat forces in Southwest Asia, and the deployment of smaller specialized forces to deal with terror threats, biological outbreaks, and humanitarian support missions, losing any joint capability will degrade the effectiveness of future military operations.

An essential component of joint military readiness is the capability of the force to provide health and combat-casualty care for Service members in operational environments. Joint capabilities include the evacuation of casualties, both ground and air, and the support logistics necessary to maintain a forward medical presence, as well as the clinical requirements of combat casualty care. The Military Health System (MHS) is responsible for maintaining a healthy military force that is ready for deployments, as well as a cadre of health care providers who are trained to provide quality medical care both during contingency operations and for returning wounded Service members.[191] The ability of the MHS to provide operational health care is measured by the readiness of its medical personnel and related capabilities.

To train medical personnel, the MHS relies heavily on Military Treatment Facilities (MTFs) located on or near major military installations as training platforms to maintain the clinical skills of military medical personnel. There are 56 military hospitals and medical centers and 360 outpatient facilities worldwide.[192] Medical personnel assigned to MTFs deliver health care to active-duty Service members, as well as to active-duty family members, retirees, and other eligible beneficiaries, on a

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[191] *See generally* Armed Forces, 10 U.S.C. ch. 55. *See also* Assistant Secretary of Defense for Health Affairs, DoDD 5136.01, 9-10 (2013). "Defense Health Agency," Military Health System and Defense Health Agency, accessed November 29, 2014, http://health.mil/About-MHS/Organizational-Overview/Defense-Health-Agency. "Global Preparedness and Response," Military Health System and Defense Health Agency, accessed November 29, 2014, http://health.mil/Military-Health-Topics/Health-Readiness/Global-and-Domestic-Health-Preparedness-and-Response.

[192] Department of Defense, *Evaluation of the TRICARE Program: Access, Cost, and Quality, Fiscal Year 2014 Report to Congress*, accessed December 15, 2014, http://www.tricare.mil/tma/congressionalinformation/downloads/TRICARE%20Program%20Effectiveness%20(FY%202014)%201.pdf.

space-available basis.[193] In locations where local agreements exist, MTFs also provide care to patients of the Department of Veterans Affairs (VA) or civilians. For example, the San Antonio Military Medical Center is a regional Level-I[194] trauma center that provides medical care to "military members and other statutorily defined beneficiaries,"[195] as well as "non-DoD eligible Life and Limb Threatening emergencies under [certain] criteria."[196]

Military medical personnel may also receive proficiency training in certain civilian institutions. For example, the Army Trauma Training Center partners with Jackson Memorial Hospital Ryder Trauma Center in Miami, Florida, to "ensure clinical readiness for lifesaving Army and Army Reserve forward surgical teams"[197] through a 17-day training rotation.[198] The Navy Trauma Training Center partners with Los Angeles County, California, and University of Southern California to provide didactic and clinical trauma exposure.[199] Air Force Centers for Sustainment of Trauma and Readiness Skills (C-STARS) provide advanced sustainment training at specific civilian Level-I trauma centers[200] currently located in Baltimore, Maryland;[201] Cincinnati, Ohio;[202] and St. Louis, Missouri.[203] The Air Force also maintains the Sustainment of Trauma and Resuscitation Skills Program, in which Air Force medical personnel assigned to certain MTFs are regularly immersed in on-going clinical rotations at local civilian Level-I trauma centers.[204] Military medical personnel also work to maintain

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[193] *See, e.g.*, Armed Forces, 10 U.S.C. §§ 1074, 1074h, 1077. *See generally* Armed Forces, 10 U.S.C. ch. 55. Additional information and discussion on beneficiary eligibility requirements can be found at http://www.tricare.mil (https://www.tricare.mil/Plans/Eligibility.aspx), the official website of the Defense Health Agency (DHA) a component of the Military Health System.

[194] Trauma centers receive a designation from state and local authorities, between 1 and 5, based on their capabilities Ratings may be verified by the American College of Surgeons. Level-1 trauma centers are those with the most capabilities. *See* "Trauma Center Levels Explained," American Trauma Society, accessed January 10, 2015, http://www.amtrauma.org/?page=TraumaLevels.

[195] Memorandum of Understanding Between Bexar County Hospital District, San Antonio Military Medical Center, Trauma Services Cooperative Agreement, signed 2014.

[196] Memorandum of Understanding Between Bexar County Hospital District, San Antonio Military Medical Center, Trauma Services Cooperative Agreement, signed 2014. *See also* Secretary of the Army Memo to Assistant Secretary of the Army (Manpower and Reserve Affairs), *Delegation of Authority - Secretarial Designee Program*, paragraph 6.c. and sub paragraphs, April 18, 2013. Memorandum of Understanding Between Bexar County Hospital District, San Antonio Military Medical Center, Trauma Services Cooperative Agreement, signed 2014, para 3.01 (c). *See generally* Health Care Eligibility Under the Secretarial Designee Program and Related Special Authorities, DoDI 6025.23 (2011).

[197] "The U.S. Army Trauma Training Center – Training Soldiers to Heal Troops and Save Lives in Battle," PR Newswire, accessed November 29, 2014, http://www.prnewswire.com/news-releases/the-us-army-trauma-training-center---training-soldiers-to-heal-troops-and-save-lives-in-battle-74798712.html. Army doctrine defines a forward surgical team as "a 20-Soldier team which provides far forward surgical intervention to render nontransportable patients sufficiently stable to allow for medical evacuation to a Role 3 combat support hospital." *See* Casualty Care, Army Training Publication 4-02.5, 3-23 (2013).

[198] The Academy of Health Sciences, *U.S. Army Medical Department Center and School Course Catalog 2014*, 49, accessed December 15, 2014, http://www.cs.amedd.army.mil/filedownload.aspx?docid=940c7c87-febd-43fd-981e-77a3115f8202.

[199] "Navy Trauma Training Center (NTTC)," Navy Medicine Operational Training Center – Pensacola, accessed November 29, 2014, http://www.med.navy.mil/sites/nmotc/nemti/nttc/Pages/default.aspx.

[200] Medical Readiness Program Management, AFI 41-106 (22 April 2014), para 5.4.8.

[201] "C-STARS (Center for the Sustainment of Trauma and Readiness Skills)," University of Maryland School of Medicine, Program in Trauma, accessed November 29, 2014, http://medschool.umaryland.edu/trauma/CSTARS.asp.

[202] "C-STARS," University of Cincinnati Health, accessed November 29, 2014, http://uchealth.com/education/c-stars/.

[203] "USAF Trauma Training Programs at SLU Hospital," Saint Louis University Hospital, accessed on November 29, 2014, http://www.sluhospital.com/en-US/ourServices/medicalServices/Pages/USAFTraumaTrainingPrograms.aspx.

[204] Medical Readiness Program Management, AFI 41-106, para 5.3.2. (2014). *For example*, partnership between Nellis AFB and University Medical Center, Nevada (MCRMC site visit, 3 Oct 2014); more information, see Lt. Gen. (Dr.) Charles B. Green, *"The Air Force Medical Service: What is Next?" U.S. Medicine, This Year in Federal Medicine – Outlook 2011*, accessed November 29, 2014, http://www.usmedicine.com/this-year-in-federal-medicine---outlook-2011/the-air-force-medical-service-what-is-next/.

critical skills through DoD and VA joint ventures and other resource-sharing agreements.[205]

Findings:

Joint Medical Operations and Oversight

Service members have benefitted substantially from the joint nature of operations and the improvements from the rapid institutionalization of lessons learned during the recent wars. For example, the military medical force was highly successful at treating combat casualties during the recent wars. Case fatality rates in theater hospitals were approximately 10 percent in Operation ENDURING FREEDOM (OEF) and Operation IRAQI FREEDOM (OIF), down from 30 percent during WWII and 24 percent during the Vietnam and the 1991 Persian Gulf conflicts.[206] It is critical to sustain, and whenever possible, improve upon, these joint capabilities. Each Military Service, however, develops its medical resources to support its own Service-specific mission.[207] Although the MHS is an interrelated system that coordinates medical services, capabilities, and specialties among the Service components, it is not a joint command charged with integrating these capabilities and maintaining proficiency.

For example, several changes in medical logistics saved lives during OEF and OIF. Approximately 10,000 Service members wounded in action were medically evacuated out of theater.[208] En route care and Air Force Critical Care Air Transport Teams revolutionized combat care for critically ill Service members.[209] This global medical capability is considered one of the most important contributions to survival in OEF and OIF.[210] Forward deployment of blood products to mitigate hemorrhage in the prehospital environment, deployment of forward resuscitative surgical-system teams in close proximity to the point of engagement, and split-based operations of forward surgical teams also contributed to survival.[211] Although there has been substantial advances in combat medical care, there remains no central oversight of the medical evacuation mission, the training requirements necessary to maintain the newly developed capabilities during peacetime, or the research and development necessary to expand forward surgical capabilities.

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[205] *See generally*: Veterans Benefits, 38 U.S.C. § 8111. DoD and Department of Veterans Affairs Health Care Resource Sharing Program, DoDI 6010.23 (2013). VA-DOD Direct Sharing Agreements, VHA Handbook 1660.04.Memorandum of Understanding Between the Department of Veterans Affairs and the Department of Defense – Health Care Resources Sharing Guidelines, accessed January 10, 2015, http://www.va.gov/vhapublications/ViewPublication.asp?pub_ID=1776. For further discussion of DoD and VA resource sharing, see Recommendation 8 in this report.

[206] Nicholas R. Langan, Matthew Eckerts, and Matthew J. Martin, "Changes in Patterns of In-Hospital Deaths Following Implementation of Damage Control Resuscitation Practices in US Forward Military Treatment Facilities," *JAMA Surgery*, 149, no. 9 (September 2014): E5, http://archsurg.jamanetwork.com/article.aspx?articleid=1888411.

[207] *See, e.g.*, Army Health System, FM-4-02 (August 2013), ch. 1, Army Health System Overview.

[208] Congressional Research Service, American War and Military Operations Casualties: Lists and Statistics, February 26, 2010, 13 &16, accessed December 23, 2014, https://www.fas.org/sgp/crs/natsec/RL32492.pdf.

[209] U.S. Air Force, Wilford Hall Ambulatory Surgical Center, Lackland AFB, Texas, *Critical Care Air Transport Team Fact Sheet*, accessed December 15, 2014, http://www.whasc.af.mil/shared/media/document/AFD-120810-038.pdf.

[210] Jay A. Johannigman, "Maintaining the Continuum of En Route Care," *Critical Care Medicine*, 2008, 36 (Suppl. 7):S377-S382.

[211] *See, e.g.*, John B. Holcomb et al., "U.S. Army Two-Surgeon Teams Operating in Remote Afghanistan—An Evaluation of Split-Based Forward Surgical Team Operations," *The Journal of Trauma*, 66, 5 Suppl, (2008): S37-47. Lorne H. Blackbourne et al., "U.S. Army Split Forward Surgical Team Management of Mass Casualty Events in Afghanistan: Surgeon Performed Triage Results in Excellent Outcomes," *American Journal of Disaster Medicine*, 4, no. 6, (2009): 321-329.

The military also adopted several improvements in joint medical training that improved battlefield survivability during OEF and OIF. The Combat Life Saver (CLS) program, which extended medical training to all Service members, including members of the Reserve Component, was instrumental in providing immediate medical care to wounded Service members.[212] CLS was developed as part of the Tactical Combat Casualty Care (TCCC) course,[213] which was funded by the U.S. Special Operations Command.[214] CLS and TCCC provide a comprehensive set of battlefield trauma care strategies customized for use in combat.[215]

CLS and TCCC have been noted in multiple published reports for successfully saving lives on the battlefield during the last decade of war.[216] Availability of TCCC skills is considered a dominant factor in reducing preventable deaths and in achieving a casualty case fatality rate of 10 percent.[217] Similarly, tourniquet use on the battlefield has become widespread,[218] saving an estimated 1,000–2,000 lives because they were used rapidly and effectively for life threatening extremity hemorrhage.[219] Yet, none of the military Services had tourniquet policies or programs in place before the beginning of hostilities in Afghanistan in 2001.[220] Without continuous and focused joint integration, the medical capabilities now resident with the total force may degrade or atrophy and ongoing improvements in joint capabilities may be limited.

Joint battlefield data management provides another example of a capability developed during the wars that may atrophy during peacetime. Based on a casualty card collection program developed by the 75th Ranger Regiment,[221] a prehospital Joint Theater Trauma Registry also reduced mortality rates. The registry, now known as Department of Defense Trauma Registry (DoDTR), was implemented in 2005 to evaluate tactical combat casualty care treatment strategies, as well as modifications to

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[212] Defense Health Board, *Tactical Combat Casualty Course and minimizing Preventable fatalities in Combat Memorandum, August 6, 2009*, accessed January 10, 2015, http://www.health.mil/~/media/MHS/Report%20Files/200905.ashx. Defense Medical Readiness Training Institute, *TCCC Skills Sets by Provider Level*, http://www.dmrti.army.mil/TCCC%20Skill%20Sets%20by%20Provider%20Level%20120917.pdf.

[213] Defense Medical Readiness Training Institute, *TCCC Skills Sets by Provider Level*, http://www.dmrti.army.mil/TCCC%20Skill%20Sets%20by%20Provider%20Level%20120917.pdf.

[214] Frank K. Butler, John Hagmann, and George Butler, "Tactical Combat Casualty Care in Special Operations," *Military Medicine*, 161, suppl. 3 (1996), 1-15, http://www.dmrti.army.mil/TCCC%20Skill%20Sets%20by%20Provider%20Level%20120917.pdf.

[215] Frank K. Butler, John Hagmann, and George Butler, "Tactical Combat Casualty Care in Special Operations," *Military Medicine*, 161, suppl. 3 (1996), 1-15, http://www.dmrti.army.mil/TCCC%20Skill%20Sets%20by%20Provider%20Level%20120917.pdf. Defense Medical Readiness Training Institute, TCCC Skills Sets by Provider Level, http://www.dmrti.army.mil/TCCC%20Skill%20Sets%20by%20Provider%20Level%20120917.pdf.

[216] *See* Lorne H. Blackbourne et al., "Military Medical Revolution: Prehospital Combat Casualty Care," *Journal of Trauma Acute Care Surgery*, 73, no. 6, suppl. 5 (2012), (discussing multiple sources that address battlefield casualties during OEF and OIF), http://journals.lww.com/jtrauma/Fulltext/2012/12005/Military_medical_revolution___Prehospital_combat.2.aspx#.

[217] "Tactical Combat Casualty Course and Minimizing Preventable Fatalities in Combat," Defense Health Board Memorandum, August 6, 2009, accessed November 29, 2014, http://www.health.mil/~/media/MHS/Report%20Files/200905.ashx.

[218] Lorne H. Blackbourne et al., "Military Medical Revolution: Prehospital Combat Casualty Care," *Journal of Trauma Acute Care Surgery*, 73, no. 6, suppl. 5 (2012), S373, http://journals.lww.com/jtrauma/Fulltext/2012/12005/Military_medical_revolution___Prehospital_combat.2.aspx#.

[219] Lorne H. Blackbourne et al., "Military Medical Revolution: Prehospital Combat Casualty Care," *Journal of Trauma Acute Care Surgery*, 73, no. 6, suppl. 5 (2012), http://journals.lww.com/jtrauma/Fulltext/2012/12005/Military_medical_revolution___Prehospital_combat.2.aspx#.

[220] Ibid, S372.

[221] Russ S. Kotwal, Harold R. Montgomery, and Kathy K. Mechler, "A Prehospital Trauma Registry for Tactical Combat Casualty Care," *U.S. Army Medical Department Journal*, 2011.

unit medical and nonmedical personnel, training, and equipment requirements.[222] The joint DoDTR captures injury demographics, anatomic and physiologic parameters, and trauma care and outcomes across the continuum of combat casualty care,[223] providing critical information used to affect improvements in clinical care, drive medically related doctrine and policy, and support the creation of new knowledge through research.[224] Though these advances in data collection have made it possible to significantly increase necessary medical training to the entire force and save lives, such levels of integration and research are difficult to maintain during peacetime.

Great advances have also been made in the care of returning wounded warriors, such as prostheses research, development, and fielding. These improvements include silicone liners that allow better fitting, energy-storing prostheses that allow for higher-intensity activity, and motorized prostheses that allow for more normal walking gaits.[225] The Center for the Intrepid at Fort Sam Houston, Texas, developed custom-fit, energy-storing orthotics that offload weight to the leg and relieve pain, improving functional performance.[226] The advances in prosthetics and orthotics, improved pain control, and aggressive rehabilitation have allowed a return-to-duty rate of approximately 20 percent for soldiers who have had a lower limb amputation[227] and limb salvage.[228] During long periods of peacetime, advances in wounded warrior care are no longer the focus. National treasures such as the Center for the Intrepid will require continued joint coordination within the military and a strong relationship with military allies and civilian institutions to continue the progress made during the last decade.

Despite these critical examples of wartime medical capabilities, military medical requirements neither have a high level joint focus nor are they jointly developed. The requirement for military medical personnel and capabilities is determined by each Service in response to DoD planning scenarios.[229] Each Military Service independently completes this process annually. This process then produces requirements estimates using separate models and planning assumptions for the provided defense scenarios.[230] Consequently, the Services take different approaches to equipping and

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[222] *See* United States Army, Institute of Surgical Research, *Department of Defense Joint Trauma Registry (DODTR) Mission*, accessed December 23, 2014, http://www.usaisr.amedd.army.mil/joint_trauma_system.html.
[223] "Joint Trauma System," U.S. Army Institute of Surgical Research, accessed November 29, 2014, http://www.usaisr.amedd.army.mil/joint_trauma_system.html.
[224] United States Central Command, *CENTCOM Joint Theater Trauma System (JTTS) Clinical Practice Guidelines (CPGs) Development, Approval, Implementation and Monitoring Process*, accessed December 15, 2014, http://www.usaisr.amedd.army.mil/assets/cpgs/02_centcom_jtts_cpg_process_2_apr_12.pdf .
[225] Lorne H. Blackbourne et al., "Military Medical Revolution: Military Trauma System," *Journal of Trauma Acute Care Surgery*, 73, no. 6, suppl. 5 (2012): S392, accessed January 10, 2015, http://journals.lww.com/jtrauma/Fulltext/2012/12005/Military_medical_revolution___Military_trauma.4.aspx.
[226] Commission's visit to the Center for the Intrepid, January 6, 2014. Joseph R. Hsu et al., "Return To Duty After Integrated Orthotic And Rehabilitation Initiative," Skeletal Trauma Research Consortium (STReC).
[227] Daniel J. Stinner et al., "Return to Duty Rate of Amputee Soldiers in the Current Conflicts in Afghanistan and Iraq," *Journal of Trauma*, 68, No. 6, (2010), http://opmarketing.com/storage/Research%20EncyclOPedia/Military/OEF%20OIF%20return%20to%20duty%20rates_J%20Trauma.pdf.
[228] Jessica D. Cross et al., "Return to Duty Following Type III Open Tibia Fracture," *Journal of Orthopaedic Trauma*, 2012, 26:43Y47, abstract accessed December 14, 2014, http://www.ncbi.nlm.nih.gov/pubmed/21885998.
[229] John E. Whitley, Brandon Gould, Nancy Huff, and Linda Wu, Institute for Defense Anlayses, *Medical Total Force Management*, accessed December 19, 2014, https://www.ida.org/~/media/Corporate/Files/Publications/IDA_Documents/CARD/P-5047.ashx.
[230] Department of Defense, *Military Health System Modernization Study, v.28*, October 2014. John E. Whitley, Brandon Gould, Nancy Huff, and Linda Wu, Institute for Defense Anlayses, *Medical Total Force Management*, accessed December 19, 2014, https://www.ida.org/~/media/Corporate/Files/Publications/IDA_Documents/CARD/P-5047.ashx.

training personnel to meet medical readiness missions.[231] Independent of the Services, the Joint Force Surgeon works with combatant command surgeons to assess health care needs for contingency operations.[232] Together they make recommendations to the joint force commander regarding health service support and force health protection requirements for contingency operations.[233] There is no joint doctrine among the Services regarding definitional aspects of medical readiness manpower requirements, even though independently developing medical requirements are unlikely to result in medical capabilities that are fully integrated. Conversely, jointly developing requirements from the beginning would be more efficient and provide an integrated medical force that is better prepared for joint operations at the beginning of the next conflict.

The Service Surgeons General stated they neither had a common definition of clinical medical readiness, nor associated skills maintenance standards.[234] For example, DoD recently completed the first phase of a *MHS Modernization Study*, which analyzed skill maintenance by measuring workload volume using the physician work Relative Value Unit (RVUs).[235] RVUs provide a measurement that accounts for the time, technical skill and effort, mental effort and judgment, and stress to provide a service, resulting in a measure of workload weighted by the intensity of the procedure.[236] RVUs do not directly measure the suitability of medical cases for maintaining the military readiness of the medical force. Similarly, the MHS monitors 18 Healthcare Effectiveness Data and Information Set (HEDIS) measures in MTFs related to health and safety issues.[237] HEDIS, used by more than 90 percent of health plans in the country to measure quality, consists of 81 measures across five domains.[238] While HEDIS measures allow for accreditations and comparisons across health plans and facilities, they do not measure clinical proficiency or military medical readiness. The Surgeons General of the Services stated that DoD had not agreed upon better measurements than RVUs and HEDIS to measure skill maintenance.[239] Yet there is a clear need for better skills measurement.

The MHS could also benefit from more consistent coordination with the civilian medical sector. The Services each have training programs with civilian trauma facilities; however, these programs differ substantially in scope and duration. For example, there are only isolated instances in which enlisted medics receive skill maintenance training in civilian facilities. The Captain James A. Lovell Federal Health Care Center has an agreement with Cook County Health and Hospital System (CCHHS), Chicago, Illinois, to allow for 2-month training rotations of Navy hospital

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[231] Department of Defense, *Military Health System Modernization Study, v.28*, October 2014.
[232] Department of Defense, *Health Service Support*, Joint Publication 4-02, accessed January 10, 2015, http://www.dtic.mil/doctrine/new_pubs/jp4_02.pdf
[233] Ibid.
[234] Service Surgeons General, meeting with MCRMC Commissioners, June 12, 2014.
[235] Department of Defense, *Military Health System Modernization Study, v.28*, October 2014.
[236] National Health Policy Forum, The George Washington University, *The Basics – Relative Value Units (RVUs)*, accessed December 15, 2014, http://www.nhpf.org/library/the-basics/Basics_RVUs_02-12-09.pdf.
[237] Department of Defense, *Military Health System Review-Final Report, Appendix 4. Quality of Care, Table 4.4-3 percent of Eligible Patients Receiving Select Care Measures, External Comparison: MHS vs. HEDIS (2010-2013)*, accessed December 15, 2014, http://www.defense.gov/pubs/140930_MHS_Review_Final_Report_Appendices.pdf.
[238] *See* "Measuring Performance," NCQA, accessed December, 16, 2014, http://www.ncqa.org/HEDISQualityMeasurement.aspx.
[239] The Navy Surgeon General also commented that the RVU does not account for the fact that the military medical force must be ready to deploy for contingency operations and provide medical services necessary to maintain the medical readiness of the force, which takes away from beneficiary care. Navy Surgeon General, briefing with MCRMC Commissioners, June 12, 2014.

corpsmen, as well as nurses and surgeons, through the CCHHS Trauma Department.[240] Similarly, the Sacred Heart Health System in Pensacola, Florida expressed a desire to expand military training opportunities, including developing a completely new career track for a medical assistant that is geared toward the medical skill necessary to support the basic Navy hospital corpsman.[241] Central joint oversight and standardization of agreements between civilian institutions and the military could help expand civilian training opportunities for military medical staff, which in turn would assist in sustaining medical readiness.

Training During Peacetime

Attracting a different mix of medical cases into MTFs could better support combat-care training and medical readiness. Research reveals a long history of the military medical community needing to refocus its capabilities at the start of wars, after concentrating during peacetime on beneficiary health care.[242] A recent DoD study stated, "In order to meet its deployment mission, our uniformed medical personnel must practice and hone their skills in garrison. Therefore, our study assessed the ability of the MHS to sustain the medical readiness skills of the uniformed medical force."[243] The study further stated, "Our fundamental approach was to focus on medical readiness as the principle mission of our treatment facilities."[244]

Beneficiary care may not sufficiently provide ideal training opportunities to maintain and sustain the military medical capabilities developed during the last 13 years of war. For example, prevalent injuries and wounds during operations in Afghanistan and Iraq were a result of penetrating or blast trauma.[245] As a result, there has been a preponderance of extremity, vascular, genital, visual, skeletal, and traumatic brain injuries. Yet surgeons were not adequately prepared to treat these injuries. A survey of general surgeons from all military Services who deployed between 2002 and 2012 found that 80 percent of respondents desired additional training on particular surgical disciplines or injury types prior to deployment. The most commonly requested types of training were extremity vascular repairs, neurosurgery, orthopedics, and abdominal vascular repairs.[246] Surgeons overwhelmingly cited vascular surgeries as the most difficult cases, followed by neurosurgical procedures, burns, and thoracic cases.[247] Surgeons reported they had difficulty with these procedures because they had not

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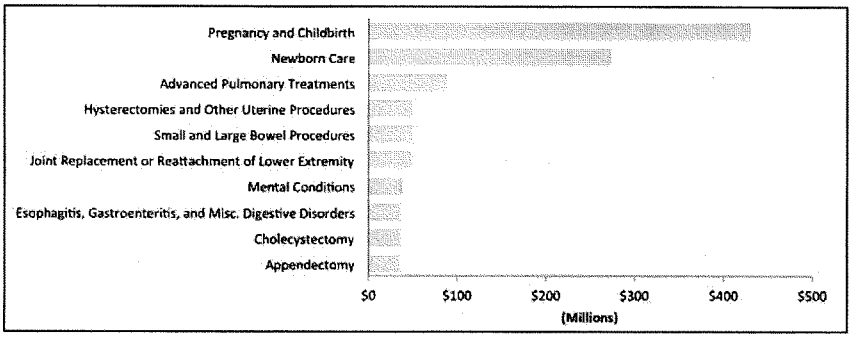
[240] Memorandum of Understanding For Navy Active Duty Staff between The Captain James A Lovell Federal Health Care Center and The Cook County Health and Hospital System.
[241] Susan Davis, CEO Sacred Heart Health System, and Henry Stovall, President, Sacred Heart Hospital Pensacola, meeting with MCRMC Commissioners, May 21, 2014.
[242] Bernard Rostker details this historic pattern in early U.S. wars in Bernard Rostker, *Providing for the Casualties of War: The American Experience Through World War II*, (Washington, DC: RAND, 2013). National Defense Research Institute, Government Accountability Office, *Medical Readiness: Efforts Are Underway for DOD Training in Civilian Trauma Centers*, (GAO/NSIAD-98-75) April 1998, accessed December 16, 2014, http://www.gao.gov/assets/160/156122.pdf.
[243] Department of Defense, *Military Health System Modernization Study*, v. 28, October 2014.
[244] Ibid.
[245] CNA Analysis Solutions, *The Quality-Volume Relationship: Comparing Civilian and MHS Practice*, November 2014, DIM-2014-009221-Final.
[246] Note that respondents included general surgeons and associated surgical subspecialties who deployed in general surgery billets. Joshua A. Tyler et al., "Combat Readiness for the Modern Military Surgeon: Data from a Decade of Combat Operations," *Journal of Trauma and Acute Care Surgery*, 73, no. 2 (2012): S64-S70, http://www.ncbi.nlm.nih.gov/pubmed/22847097. CNA Analysis Solutions, *The Quality-Volume Relationship: Comparing Civilian and MHS Practice*, November 2014, DIM-2014-009221-Final.
[247] Ibid.

performed them in nondeployed clinical settings, and because there had been a substantial time lapse since they had last treated these types of injuries.[248]

The increased cohesion of medical teams in military hospitals and clinics is an important requirement for battlefield medical readiness; nevertheless, the medical care provided in typical military hospital and clinic settings is seldom directly applicable to combat-care injuries. Figure 11 provides a breakdown of prevalent inpatient procedures in military hospitals, the most predominant of which relate to pregnancy, childbirth, and newborn care. Although these procedures can provide valuable workload to support the general skill of providers and health care teams, they do not represent the ideal case load required to maintain the clinical skills directly related to medical readiness.

Figure 11. Top 10 Inpatient Procedures in Military Treatment Facilities, FY 2013[249]



Relying on existing MTF medical cases as a training platform for combat care can result in a misalignment of military medical personnel compared to the medical requirements necessary to support the operational missions.[250] At the start of the wars in Afghanistan and Iraq, the military medical force was understaffed for surgeons, anesthesiologists, and other specialties critical to combat casualty care,[251] and overstaffed in specialties that generally provide peacetime health care.[252] Some military medical professionals have concluded that the expectation to deliver ongoing, high quality, beneficiary health care, while preparing for the possibility of war, creates

[248] Ibid.
[249] Department of Defense, *Evaluation of the TRICARE Program: Access, Cost, and Quality, Fiscal Year 2014 Report to Congress, February 21, 2014*, 78, accessed December 15, 2014, http://www.tricare.mil/tma/congressionalinformation/downloads/TRICARE%20Program%20Effectiveness%20(FY%202014)%201.pdf. Note: The DoD has deliberately decreased inpatient mental health beds.
[250] John E. Whitley, Brandon Gould, Nancy Huff, and Linda Wu, Institute for Defense Anlayses, *Medical Total Force Management*, accessed December 18, 2014, https://www.ida.org/~/media/Corporate/Files/Publications/IDA_Documents/CARD/P-5047.ashx.
[251] Department of Defense, *DoD Force Health Protection and Readiness—A Summary of the Medical Readiness Review, 2004-2007*, June 2008. The report identified that in 2004, the military medical force contained 359 more pediatricians and 179 more obstetricians than was required for military missions and was understaffed for its military mission by 59 anesthesiologists and 242 general surgeons.
[252] Ibid.

competing interests and directs resources and training away from maintaining battlefield skills.[253]

This misalignment of military medical staffing has led the Services to develop a medical personnel substitution policy.[254] This policy was first established for the Army in 1980 to simultaneously support military operations and manage the demands for all military health system beneficiaries.[255] Under this policy, for example, a requirement for general surgeons to staff a combat casualty care hospital might be filled, in part, by obstetricians (up to a 35 percent level of replacement).[256] In practice, not all substituted medical personnel are deployed to support combat operations, resulting in a wide range of deployment rates between medical specialties.[257] This situation caused many physicians with high-demand specialties for combat-casualty care to have deployment rates near the levels of the highest deploying combat forces.[258] High deployment rates among medical personnel are particularly burdensome because deployed doctors may not have access to the number and range of cases necessary to maintain their certifications. A RAND analysis found that shifting manpower requirements to match those specialties that are demanded in deployed settings "could improve situations at MTFs, since there would be more health care professionals available for deployment in high demand positions."[259] RAND also noted, "it could create challenges if there is not enough volume at the MTFs for the extra health care professionals to be productive and maintain their skills."[260] Creating mechanisms to change the case mix in MTFs could afford military medical personnel training opportunities that are more closely aligned to the combat care mission, improving medical readiness.

MHS Workload

MTFs would benefit from additional workload. As mentioned above, DoD recently completed the first phase of its *MHS Modernization Study*, which compared the volume of health care performed by physicians in military hospitals and clinics to that of civilian physicians.[261] The study presented data on military physician work RVU volume compared to civilian physician work RVU volume. For example, the study shows that military medical personnel in San Diego, California perform as many general surgery procedures as 5 percent of civilian surgeons; the other 95 percent of

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[253] Robert L Mabry, LTC MC USA, and Robert DeLorenzo, COL MC USA, "Challenges to Improving Combat Casualty Survival on the Battlefield," *Military Medicine*, 179.5 (May 2014): 480.
[254] *See, e.g.*, Personnel Procurement: Army Medical Department Professional Filler System, Army Regulation 601-142, April 9, 2007.
[255] *See* RAND, Arroyo Center and RAND Health, *Improving the Deployment of Army Health Care Professionals – An Evaluation of PROFIS*, accessed December 19, 2014, http://www.rand.org/content/dam/rand/pubs/technical_reports/TR1200/TR1227/RAND_TR1227.pdf.
[256] *See, e.g.*, Personnel Procurement: Army Medical Department Professional Filler System, Army Regulation 601-142, April 9, 2007.
[257] RAND, Arroyo Center and RAND Health, *Improving the Deployment of Army Health Care Professionals – An Evaluation of PROFIS*, accessed December 19, 2014, http://www.rand.org/content/dam/rand/pubs/technical_reports/TR1200/TR1227/RAND_TR1227.pdf.
[258] John E. Whitley, Brandon Gould, Nancy Huff, and Linda Wu, Institute for Defense Anlayses, *Medical Total Force Management*, accessed December 19, 2014, https://www.ida.org/~/media/Corporate/Files/Publications/IDA_Documents/CARD/P-5047.ashx.
[259] RAND, Arroyo Center and RAND Health, *Improving the Deployment of Army Health Care Professionals – An Evaluation of PROFIS*, accessed December 19, 2014, http://www.rand.org/content/dam/rand/pubs/technical_reports/TR1200/TR1227/RAND_TR1227.pdf.
[260] Ibid.
[261] Department of Defense, *Military Health System Modernization Study, v. 28*, October 2014. Note: The RVU measure does not account for training a physician may have received while deployed or while providing health care at a civilian medical facility.

civilian surgeons do more procedures each year and in San Antonio military orthopedic surgeons perform as many procedures as 7 percent of civilian orthopedic surgeons.[262] The study used this RVU data as a proxy for clinical currency or proficiency and, as such, presented the data as a tool to advocate for the repurposing of MTFs and the reallocation of the medical force to MTFs with access to a greater volume of patients.

Because RVUs, as mentioned above, are not an ideal metric to measure clinical proficiency or the readiness of the medical force, the Commission tested the *MHS Modernization Study* findings by examining military hospital workload across a range of alternative health care measures.[263] The research relied upon academic literature that suggests the volume of complex surgical cases performed should be measured for individual providers (to measure individual proficiency) and for the hospital as a whole (to measure the proficiency of the entire hospital team supporting the individual surgeon).[264] For example, evidence-based standards for coronary artery bypass grafting (CABG) suggest a hospital should do at least 250 CABGs per year to get the best outcomes.[265] In FY 2013 only 338 CABGs were performed within the direct care system of military hospitals. The Eisenhower Army Medical Center performed 64 procedures, the most for any single facility.[266] The Commission found similar results in other orthopedic procedures and cardiothoracic surgical procedures.[267] The Commission also found that 82 percent of intensive care unit admissions occurred in MTFs with total admissions below the level at which academic literature suggests the best outcomes can be expected.[268]

This analysis supports those of the *MHS Modernization Study* related to low workload in military hospitals. These workload issues could be addressed by attracting additional cases into MTFs, especially those cases that provide good training opportunities for the combat care mission. The *MHS Modernization Study* concluded that 16 of the 41 military inpatient hospitals in the United States required changes to their capability.[269] DoD determined eight of these military hospitals should transition out of inpatient care delivery and be repurposed as outpatient facilities or birthing centers.[270] Final determination on the other eight facilities was delayed for a year.[271] Closing underutilized facilities does not address the necessary mix of complex cases required to maintain the readiness of the medical force.

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[262] Department of Defense, *Military Health System Modernization Study, v.28*, 35, October 2014. The Commission calculated the percentages from the MHS Modernization Study's chart illustrating median percentages for given procedures in selected MTFs.
[263] CNA Analysis Solutions, The Quality-Volume Relationship: Comparing Civilian and MHS Practice, November 2014, DIM-2014-009221-Final. (Research and analysis performed for MCRMC.)
[264] Ibid, iii.
[265] Ibid, 20.
[266] Ibid, 21.
[267] Ibid, 23-24, 27.
[268] Ibid, 26.
[269] Under Secretary of Defense (Personnel and Readiness), *Enhancing Military Health System Performance*, memorandum for members of the Military Health System Executive Review, March 6, 2014. Facilities that required changes to their capability were identified based on multiple criteria, including the ability to recapture health care from the private network, the availability of local civilian health care providers, and cost-effectiveness to maintain services at the military facility.
[270] Under Secretary of Defense (Personnel and Readiness), Enhancing Military Health System Performance, memorandum for members of the Military Health System Executive Review, March 6, 2014.
[271] Department of Defense, *Military Health System Modernization Study, v.28*, October 2014.

New Tools To Maintain Medical Readiness

The issues related to workload levels and the mix of medical cases represent challenges to maintaining the readiness of the medical force, yet DoD has limited means of effecting meaningful change in the amount of medical workload, the mix of complex medical cases, or the access to trauma-care cases. An assumption used by the *MHS Modernization Study* was that the MHS can recapture health care currently being provided to eligible beneficiaries in local civilian hospitals or clinics.[272] Both the Army and Navy Surgeons General told the Commission current catchment areas around MTFs limit their ability to attract eligible beneficiaries who would like to receive care in MTFs.[273] Figure 11 indicates that the current beneficiary workload may not generate the case mix needed to ideally support training for combat care. In some locations the eligible beneficiary population does not require the right type of or complexity of surgical or trauma care for maintaining the readiness of the military medical force.[274] Recapturing beneficiary workload has resulted in reassignment of some beneficiaries from civilian to military primary care managers, limiting their choice of health care providers and disrupting their current health care delivery.[275]

There are several new tools that could attract more complex medical cases into the MHS to aid in the management of MTF workload and case mix, which in turn would contribute to the readiness of the medical force. For example, alternative prices could be established for certain procedures that would provide the necessary access to complex medical cases and contribute directly to maintaining the readiness of the medical force.[276] Establishing commercial reimbursement rates and associated billing systems,[277] improving authorities, and allowing greater access to veterans and civilians with relevant complex medical cases and trauma that contribute to essential medical capabilities all would provide military hospitals and clinics more opportunities for training the military medical force.[278] Also, providing additional incentives for eligible MHS beneficiaries to use military hospitals and clinics would increase utilization of these facilities and provide additional opportunities to maintain clinical proficiency. Recommendation 6 details means of accomplishing these goals.

The military has opportunities to sustain or improve the readiness of the medical force through partnerships with civilian trauma care facilities. These partnerships were originally developed in response to the lack of trauma training available to the medical force within the MTFs. The Government Accountability Office (GAO) found that the military Services were unprepared for trauma care during the Gulf War.[279] According

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[272] Ibid.
[273] Navy and Army Surgeon General, meeting with MCRMC Commissioners, June 12, 2014.
[274] Ibid.
[275] *See, e.g.*, Madigan Army Medical Center, *April Community Update*, 2014. Note: a change from a civilian PCM to a Military PCM means to change from a civilian medical practice to a military facility, the actual health care provider within the military facility can be civilian or military.
[276] *See* Amanda E. Lechner, Rebecca Gourevitch, and Paul B. Ginsburg, Center for Studying Health System Change, The Potential of Reference Pricing to Generate Health Care Savings: Lessons from a California Pioneer, Research Brief Number 30, accessed December 23, 2014, http://www.hschange.org/CONTENT/1397/.
[277] General Dynamics was awarded a $63 million contract to modernize the military billing and collection system. The Armed Forces Billing and Collection Utilization Solution (ABACUS) will provide software-as-a-service to automate, consolidate, and centralize billing and collections across 136 medical treatment facilities. "News and Events," General Dynamics Information Technology, accessed November 29, 2014, http://www.gdit.com/News-And-Events/2014/General-Dynamics-Awarded-63-Million-to-Modernize-Military-Health-Billing-and-Collections-System/.
[278] One barrier to providing health care to alternative populations at military hospitals and clinics is that many of the facilities are located on secure military installations with restricted access.
[279] Government Accountability Office, *Operation Desert Storm: Problems With Air Force Medical Readiness*, GAO/NSIAD-94-58, accessed January 10, 2015, http://www.gao.gov/assets/220/218960.pdf. *Operation Desert Storm:*

to GAO, the Gulf War highlighted that military medical forces were "unprepared to provide combat casualty care" and it brought into question the DoD's "ability to meet its wartime medical mission."[280] GAO attributed this lack of readiness to the types of training medical forces receive. "Since most military treatment facilities provide health care to active-duty personnel and their beneficiaries and do not receive trauma patients, military medical personnel cannot maintain combat trauma skills during peacetime by working in these facilities."[281] Ultimately, the Congress directed DoD to enter into partnerships at civilian facilities to improve predeployment training in combat casualty care.[282]

Subsequent to this directive, each of the Services established trauma training programs that partner with nationally renowned level-1 civilian trauma centers.[283] These programs are highly regarded for the training resource they afford the military, as well as access to civilian medical research infrastructure and the capability to maintain a group of highly skilled military trauma care providers.[284] They are also beneficial to the civilian trauma centers because military providers augment their labor force, the partnership provides for the introduction of cutting-edge ideas and practices from the battlefield, and the civilian providers have an opportunity to participate in DoD-sponsored research.[285] A study comparing military personnel at the Baltimore Shock Trauma Center (STC) with personnel at the theater hospital in Balad, Iraq found that, despite an important difference in patients and settings, "the operations performed and outcomes were similar."[286] The authors concluded, "Because a higher volume of trauma patient admission correlates with improved outcomes, the large-volume, high acuity exposure and training obtained by the C-STARS rotators at STC would suggest an advanced level skill set before deployment."[287]

Research on brigade support medical companies that were augmented with forward surgical teams found all interviewed physicians and physician assistants who attended predeployment trauma training courses or programs at the Services' trauma training centers associated with civilian level-1 trauma centers perceived them extremely valuable.[288] Those who did not attend such training believed it would have greatly improved their ability to treat trauma and mass casualties.[289] The Air Force Deputy Surgeon General stated as current military operations diminish, a priority is to invest more in civilian partnerships to ensure military physicians continue to be exposed to cases that are operationally relevant.[290] Although this realistic trauma

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Improvements Required in the Navy's Wartime Medical Program GAO/NSIAD-93-189, accessed January 10, 2015, http://www.gao.gov/assets/220/218210.pdf. *Operation Desert Storm: Full Army Medical Capability Not Achieved,* GAO/NSIAD-92-175, accessed January 10, 2015, http://www.gao.gov/assets/220/218309.pdf.

[280] Government Accountability Office, *Medical Readiness: Efforts Are Underway for DOD Training in Civilian Trauma Centers,* GAO/NSIAD-98-75, 12, accessed January 10, 2015, http://www.gao.gov/assets/160/156122.pdf.

[281] Ibid.

[282] National Defense Authorization Act for FY 1996, Pub. L. No. 106-104, § 744, 110 Stat. 386 (1996).

[283] Chad M. Thorson, MD, et al., "Military Trauma Training at Civilian Centers: A Decade of Advancements," *Journal of Trauma and Acute Care Surgery,* 73, no. 6 (2012): S483-S489.

[284] Ibid.

[285] Ibid.

[286] Maureen McCunn, MD et al., "Trauma Readiness Training for Military Deployment: A Comparison between a U.S. Trauma Center and an Air Force Theater Hospital in Balad, Iraq," *Military Medicine,* 176, no. 7 (July 2011): 772.

[287] Ibid.

[288] Emil Lesho, COL MC USA, "Prospective Data, Experience, and Lessons Learned at a Surgically Augmented Brigade Medical Company (Level II+) During the 2007 Iraq Surge," *Military Medicine,* 176, no. 7 (July 2011): 763-768.

[289] Ibid.

[290] Air Force Deputy Surgeon General, meeting with MCRMC Commissioners, June 12, 2014.

training in a live setting provides beneficial experience, some question whether these training platforms will continue after current contingency operations conclude.[291]

Flow of Health Care Funding

MHS is currently funded from a variety of sources, including Defense Health Program appropriations (operations and maintenance, procurement, and research and development),[292] the Services' military personnel appropriations,[293] Defense-wide military construction appropriations,[294] and payments from the Medicare-Eligible Retiree Health Care Fund (MERHCF).[295] These funds cover medical readiness costs, including delivering care to active-duty Service members and training for military medical personnel, and the costs of delivering care to beneficiaries. The budgeting process, as currently designed, does not allow for distinction between these two expenditures.[296] This flow of funding can have a negative effect on the MHS. As GAO has written, "choices about the method of budget reporting represent much more than technical decisions about how to measure cost, rather they reflect fundamental choices about the controls and incentives to be provided by the decision-making process."[297]

Conclusions:

The critical nature of joint readiness, including the essential medical readiness examples above, make it clear that four-star leadership is needed to sustain dedicated focus on the joint readiness of the force. Ensuring that the hard-fought progress achieved during the past decade in the delivery of combat casualty care on the battlefield, the global capability for evacuating casualties and providing critical care while in transit, and the research that has led to advances in wound care and hemorrhage control, requires strong oversight at the highest level. The Commission thoroughly evaluated the merits of a four-star joint medical command. In fact, 15 out of 18 studies between 1948 and 2011 recommended the establishment of a unified, joint, or central authority over military medicine. Yet, medicine is only one component of joint military readiness. The essential nature of military medicine by itself warrants four-star oversight, and the Commission concludes the best course of action is to create a four-star Joint Readiness Command to manage the readiness, as well as the interoperability, efficiency, and "jointness" of the entire military force, including medical readiness.

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[291] *See* Chad M. Thorson, MD, et al., "Military Trauma Training at Civilian Centers: A Decade of Advancements," *Journal of Trauma and Acute Care Surgery*, 73, no. 6 (2012): S483-S489.

[292] *See, e.g.*, Defense Health Program, *Fiscal Year (FY) 2015 Budget Estimates: Operation and Maintenance Procurement Research, Development, Test and Evaluation*, accessed December 19, 2014, http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2015/budget_justification/pdfs/09_Defense_Health_Program/DHP_PB15_Vol_I-II.pdf.

[293] *See, e.g.*, Department of Defense, *Evaluation of the TRICARE Program: Access, Cost, and Quality, Fiscal Year 2014 Report to Congress*, accessed December 15, 2014, http://www.tricare.mil/tma/congressionalinformation/downloads/TRICARE%20Program%20Effectiveness%20(FY%202014)%201.pdf.

[294] *See, e.g.*, Department of Defense, *Fiscal Year (FY) 2015 Budget Estimates: Military Construction Family Housing Defense-Wide*, accessed December 19, 2014, http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2015/budget_justification/pdfs/07_Military_Construction/Military_Construction_Defense-Wide.pdf.

[295] *See, e.g.*, Department of Defense, Office of the Actuary, *Valuation of the Medicare-Eligible Retiree Health Care Fund*, accessed December 19, 2014, http://actuary.defense.gov/Portals/15/Documents/FY_2012_MERHCF_ Val_report.pdf.

[296] Government Accountability Office, *Accrual Budgeting: Experiences of Other Nations and Implications for the United States, Report to the Honorable Benjamin L. Cardin, House of Representatives*, GAO/AIMD-00-57, accessed December 19, 2014, http://www.gao.gov/assets/160/156759.pdf.

[297] Ibid.

Joint Readiness Command

A four-star command is essential for the proper oversight of joint readiness that extends beyond medical readiness. For example, despite repeated inquiries, the Commission was unable to obtain a definitive answer as to whether the Reserve Component (RC) would remain operational or revert to a strategic posture. This question has broad implications for the maintenance of the All-Volunteer Force, as well as the proper design of the military compensation system. A four-star commander with responsibility for joint readiness would have the stature and resources necessary to thoroughly analyze the best posture of the RC, recommend strategic guidance for maintenance of the All-Volunteer Force, and provide input to the Secretary of Defense and the Chairman of the Joint Chiefs of Staff needed to best align compensation programs with maintaining a balanced force.

In addition, a four-star commander is needed to ensure the flexibility inherent in the recommendations in this report are best used to maintain the readiness of the entire force and, as argued in this recommendation, specifically the readiness of the medical force. This report provides new tools with which DoD can adjust workload in MTFs to provide the best available training opportunities to maintain the clinic proficiency of medical personnel. Because these adjustments may require additional funding to attract workload, there would be a natural tension between maintaining readiness and budget pressures. A four-star commander is needed to effectively advocate for readiness funding and actively participate in the planning, programming, budget, and execution (PPBE) process, especially in the current period of declining military budgets.

A four-star command is also consistent with both the Commission's Congressional mandate and Presidential principles. The Commission's establishing statute mandates that its recommendations must "ensure the long-term viability of the All-Volunteer Force by sustaining the required human resources of that force during all levels of conflict and economic conditions."[298] Strong leadership at the most senior levels, including oversight of the readiness of critical medical personnel, is required to achieve this mandate. Similarly, a four-star commander best fulfills the President's principles that seek to sustain "our Nation's ability to sustain an All-Volunteer Force," to ensure "responsive and prudent management" of the Force, and to "actively retain the most experienced and qualified service members and align compensation and benefits to achieve this end."[299]

The President, the Congress, and DoD should therefore create a new four-star general/flag officer billet to lead a Joint Readiness Command (JRC) that manages the readiness of military personnel. The JRC should focus on the military personnel aspects of DoD's ability to train, mobilize and deploy an integrated and ready active and RC force to support assigned missions. The JRC would include readiness issues across combat domains, including, of particular concern to the Commission, the area of military medical readiness.

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[298] National Defense Authorization Act for FY 2013, Pub. L. No. 112-239, § 671(a)(1), 126 Stat. 1632, 1787 (2013) (amended by National Defense Authorization Act for FY 2014, Pub. L. 113-66, § 1095(b), 127 Stat. 672, 879 (2013)).
[299] President Barack Obama, *Principles for Modernizing Compensation and Retirement Systems*, accessed December 15, 2014, http://www.mcrmc.gov/public/docs/statutory/Principles.pdf.

Joint Staff Readiness Directorate
To further ensure the appropriate focus on medical readiness throughout the requirements determination and budget processes, medical readiness issues should be elevated within the Joint Staff. A Joint Staff Medical Readiness Directorate (J10) should be established and directed by a three-star general/flag medical officer. The J10 should coordinate with the JRC on medical readiness issues. The current Joint Force Surgeon (J4) office should be transitioned to the new J10, which has responsibility to include establishing a Joint Medical Readiness Oversight Council (JMROC). The JMROC should comprise the J10, the medical section of the JRC, the Service Surgeons General, the Medical Officer of the Marine Corps, and, as needed, the Combatant Command Surgeons. The JMROC should also include advisory representatives from Offices of the Undersecretaries of Defense for Personnel and Readiness, Acquisition, Technology and Logistics, and Comptroller; the Assistant Secretary of Defense for Health Affairs; and the Directors, Cost Assessment and Program Evaluation; Defense Health Agency (DHA); and such others as the J10 director may deem appropriate. The J10 director should advocate for medical readiness matters in the PPBE process, including providing staff representatives to PPBE issue teams and the three-star programmers meeting on all medical issues in the PPBE process. The J10 director should also provide advice to the Chairman and Vice Chairman on all medical issues in the PPBE process.

Reorienting MTF Capabilities
MTFs, with their current workload and case mix, are not ideal platforms for training military medical personnel for the readiness mission. The predominance of care provided at MTFs does not provide direct training opportunities for those medical specialties most needed in wartime situations. Military medical personnel are misaligned with wartime requirements; deployment rates of medical specialties are highly inconsistent; and medical readiness funding is comingled with beneficiary care costs. Overall workload in MTFs is below commercial standards, particularly in operational specialties. DoD has very limited means of effecting change in the underlying causes for MTFs not being ideal training platforms. It can only change workload in MTFs by "recapturing" beneficiary care, which restricts beneficiaries' health care choices and does not resolve case mix challenges. Although this report suggests new tools to make MTFs better training platforms, DoD has no centralized oversight of battlefield health care or the medical readiness mission to ensure those tools are implemented and used to best support combat casualty care.

To ensure the Nation is not left unprepared at the start of the next war, the military medical lessons learned during war must be preserved and improved upon whenever possible. The military medical force should be provided every opportunity to access the best possible training environments. Accordingly, DoD needs to implement a new strategic framework to maintain medical readiness, new tools with which to achieve this readiness, and new oversight to ensure Service members receive the best care possible during the next conflict.

DoD should clearly identify Essential Medical Capabilities (EMCs)[300] the military needs for its operational mission, taking into account the experiences during the last

[300] Essential Medical Capability (EMC) refers to a limited number of critical medical capabilities that must be retained within the military for national security purposes. These capabilities are vital to effective and timely health care during contingency operations. EMCs should include clinical and logistical capabilities related to combat casualty care;

13 years of war. EMCs should include Specialized Military Conditions (SMCs)[301] not primarily performed in theater but commonly associated with military operations. EMCs should be maintained as a core capability of military medicine. To maintain these EMCs, DoD should establish clinical proficiency standards for military medical personnel and facilities that are based on widely accepted metrics of the medical profession, taking into account military readiness requirements. DoD should also be given new authorities to make certain it meets these proficiency standards, including:

- Allowing beneficiaries to choose from a selection of commercial insurance plans offered through a DoD heath benefit program. This approach, which Recommendation 6 outlines in greater detail, would improve the health benefit for military beneficiaries. It would also create new tools with which DoD could attract patients into military hospitals, especially those with complex medical cases that are important for medical readiness training that will advance the medical readiness mission.

- Annually adjusting copayments for EMC-related care delivered in MTFs so DoD beneficiaries have financial incentives to receive MTF care.

- Providing care to VA patients and civilians[302] who have cases consistent with DoD's EMCs.

- Annually adjusting procedure reimbursement rates at MTFs. Reimbursement rates charged by MTFs should be based, in part, on the need to attract sufficient EMC-related workload and case mix to maintain MTFs as appropriate readiness training platforms. Such tools require strong oversight to guard against budget cutting and ensure they are used to maintain readiness of the medical force and the health of the MHS as a training platform.

- MTF catchment areas[303] should be eliminated. By doing so, eligible beneficiaries who currently live outside of catchment areas would be able to seek health care at military hospital and clinics. Not only would this change provide additional choices to beneficiaries, it could provide additional workload to better support MTFs in achieving their readiness mission. Recommendation 6 outlines the basis for eliminating these catchment areas.

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medical response to and treatment of injuries sustained from chemical, biological, radiological, nuclear, and explosives incidents; diagnosis and treatment of infectious diseases; aerospace medicine; and undersea medicine. EMCs also include a limited number of "Specialized Military Conditions" (SMCs) not primarily performed in theater but commonly associated with military operations.

[301] Care provided for Specialized Military Conditions (SMC) refers to the diagnosis, treatment, and rehabilitation of certain conditions incurred as a direct result of military activity, i.e., amputations, certain musculoskeletal trauma, burns, traumatic brain injuries, and post-traumatic stress disorder. SMCs are unusual medical conditions that are particularly associated with military action during major operations and training exercises and are not typically common among the civilian population. SMCs evolve to reflect emerging medical conditions that result from changes in warfighting and advancements in commercial-sector medical treatments.

[302] Health care provided to civilians should be limited to EMC-related health care. For example: Burn patients at the San Antonio Military Medical Center, Traumatic brain injury rehabilitation at any of the National Intrepid Centers of Excellence, or rehabilitation at the Center for the Intrepid for amputations, burns, or functional limb loss.

[303] National Defense, 32 CFR 728.2. A specified geographic area surrounding each Uniformed Services Medical Treatment Facility (USMTF) or designated Uniformed Services Treatment Facility (USTF). In the United States, catchment areas are defined by zip codes and are based on an area of approximately 40 miles in radius for inpatient care and 20 miles in radius for ambulatory care.

- Standardizing and increasing the number of local agreements to take advantage of the opportunities to provide the medical force more trauma-care training at civilian facilities. If operational medical requirements exceed the training capacity of the MTF system, DoD should have the authority to make training in civilian facilities a more prominent program and to seek ways to allow more medical forces to participate. To the extent possible, DoD should be able to standardize agreements with civilian hospitals to facilitate training by medical personnel across the Services. Agreements also need to be structured so that military medical personnel can be mobilized without introducing risk to the civilian facilities.

- Segregating funding for beneficiary care from the cost of medical readiness in the DoD budget. As Recommendation 6 outlines in detail, beneficiary costs can be segregated by funding them through insurance premiums and a new Basic Allowance for Health Care. By doing so, additional readiness funds necessary to cover MTF costs would be budgeted separately, improving transparency, oversight, and allocation to the readiness mission. Improving transparency in medical readiness funding also helps ensure ongoing focus on medical research contributing to battlefield and expeditionary medicine.

The *MHS Modernization Study* concluded that many MTFs without sufficient workload should discontinue their inpatient services.[304] Although it may be appropriate to close inpatient services at some MTFs, doing so is not the only solution to workload and case mix shortfalls. In fact, closing or reducing services at MTFs may exacerbate workload issues at other facilities. Reducing the capability at too many MTFs has the potential to adversely affect the ability of the MHS to maintain sufficient capacity for wounded warrior care. Facility reduction may represent long-term risk to military medicine, and does not address the underlying problem. The military medical force requires access to the desired volume and mix of complex medical cases and trauma to maintain medical force readiness.

Recommendations:

- The Secretary of Defense, together with the Chairman of the Joint Chiefs of Staff, should seek to improve the oversight of joint medical readiness through the creation of newly established Joint Readiness Command led by a four-star general/flag officer, as well as transitioning the Joint Force Surgeon (J4) office to the J10 Medical Readiness Directorate in the Joint Staff.

    - The JRC should be a functional unified command led by a four-star military officer with broad responsibilities for readiness across DoD. Much of the required structure for this new command can be harvested from the Joint Staff which has grown in recent years to provide oversight of many of the functions that would be the responsibility of this new command. The JRC should include a subordinate joint medical function whose primary responsibilities include advising the JRC commander on the readiness status of the medical force, determining joint medical doctrine and

[304] Department of Defense, *Military Health System Modernization Study, v.28*, October 2014.

requirements,[305] and advising joint sourcing of medical assets with Joint Staff J3 and J10.

- The J10 Medical Readiness Directorate should be led by a three-star military medical officer whose primary responsibilities include advising the Chairman of the Joint Chiefs of Staff on medical readiness issues, advising the Joint Requirements Oversight Council, validating joint medical readiness requirements, chairing the JMROC, and participating in the PPBE process.

- The Congress should establish the statutory requirement for DoD to maintain EMCs to promote and maintain certain medical capabilities within the military. Figure 12 shows components of EMCs, and Table 6 outlines roles and responsibilities regarding EMCs.

Figure 12. Components of Essential Medical Capabilities

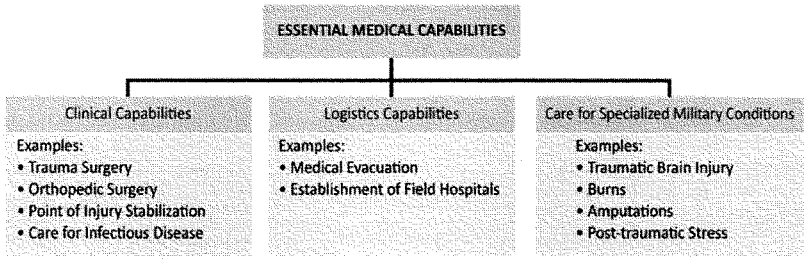

Table 6. Roles and Responsibilities Regarding Essential Medical Capabilities

Congress	1) Establish the statutory requirement for DoD to maintain EMCs 2) Establish requirement for Secretary of Defense to report annually to the Congress on EMCs 3) Establish requirement for Comptroller General to review annually DoD's adherence to EMC requirements
Secretary of Defense	1) Approve the capabilities designated as EMCs and establish policies and standards to maintain them 2) Report annually to the Congress on EMCs and associated metrics

[305] Services determine their own medical readiness requirements; the JMC would complete joint medical requirements analysis in support of joint combatant command operations.

Joint Readiness Command (with regard to military medical readiness)	1) Establish joint readiness requirements consistent with EMCs 2) Identify EMCs in collaboration with the Under Secretary of Defense for Personnel and Readiness, the Joint Staff, and the Military Services. 3) Monitor and report on Service adherence to EMC policies, standards, and medical manning requirements and fill rates for each EMC 4) Participate in PPBE process to recommend allocation of medical readiness funding from Service O&M Readiness accounts to fulfill EMCs 5) Recommend and coordinate usage of tools designed to assist in maintenance of EMCs, including providing recommendations to Defense Health Agency (DHA) and the Office of Personnel Management for annual negotiations with health insurance carriers (see Recommendation 6) 6) Monitor and recommend allocation of medical personnel to locations to ensure maintenance of EMCs
J10/Joint Readiness Directorate	1) Advise the Chairman on medical readiness issues 2) Advise Joint Requirements Oversight Council (JROC) on medical readiness issues 3) Chair the Joint Medical Readiness Oversight Council (JMROC) 4) Participate in PPBE process on medical readiness issues
Services	1) Develop Service-specific medical readiness requirements 2) Submit to JRC the core manning requirements that directly fulfill each EMC, by medical specialty. 3) Maintain at all times the medical specialties required for EMCs, without substitution 4) Regulate medical manning requirements and fill rates that fulfill each EMC 5) Manage preservation of core skills that are required for each EMC 6) Adhere to EMC policies and standards

- EMCs should be defined as a limited number of critical medical capabilities that must be retained within the military for national security purposes. These capabilities are vital to effective and timely health care during contingency operations. EMCs should include clinical and logistics capabilities necessary to accomplish operational requirements such as combat casualty care; medical response to and treatment of injuries sustained from chemical, biological, radiological, nuclear, and explosives incidents; diagnosis and treatment of infectious diseases; aerospace medicine; and undersea medicine. EMCs also include a limited number of SMCs not primarily performed in theater but commonly associated with military operations (e.g., therapy for post-traumatic stress disorder).[306] EMCs should not include medical missions or specialties not commonly associated with operational military medicine or SMCs. The Congress should require the Secretary of Defense and GAO to report annually on EMCs and their associated readiness metrics.
  - The Secretary of Defense should approve the capabilities designated as EMCs and establish policies to maintain them, including standards for the

[306] Care provided for Specialized Military Conditions (SMC) refers to the diagnosis, treatment, and rehabilitation of certain conditions incurred as a direct result of military activity, i.e., amputations, certain musculoskeletal trauma, burns, traumatic brain injuries, and post-traumatic stress disorder. SMCs are unusual medical conditions that are particularly associated with military action during major operations and training exercises and are not typically common among the civilian population. SMCs should evolve to reflect emerging medical conditions that result from changes in warfighting and advancements in commercial-sector medical treatments.

mix and volume of medical cases based on widely accepted metrics of the medical profession and the unique readiness requirements of the military.

- The JRC should measure adherence to the Secretary's EMC policies and standards using information pertaining to personnel, training, and MTFs provided by the Services. The JRC should participate in the PPBE process to advise on appropriate funding levels for military medical readiness and the allocation of such funds to best maintain EMCs. Upon identifying a shortfall in maintaining EMC standards, the JRC should recommend employing the following tools based on local market conditions, some of which relate to the commercial insurance benefit described in Recommendation 6:

    - Adjustments to procedure prices for EMC-related cases that MTFs charge to insurance carriers.

    - Adjustments to beneficiary copayments to incentivize use of the MTFs. The JRC should coordinate with the DHA on DoD's annual recommendations to the Office of Personnel Management (OPM) and the insurance carriers, as required with implementation of Recommendation 6 of this report.

    - Authority to allow veterans and civilians with cases that are needed for EMC skill maintenance to be treated in MTFs.[307]

    - Permanent Change of Station assignments of the medical force to civilian hospitals or VA facilities to offer alternative venues for skill maintenance.

- The Services should develop the means for adhering to EMC policies and clinical skill maintenance standards.

    - The Services should closely manage the preservation of core skills that are directly required for each EMC approved by the Secretary of Defense.

    - The Services should carefully regulate the manning requirements and personnel fill rates, by medical specialty, that directly fulfill each EMC.

    - Services should not substitute medical specialties required for EMCs.

    - The Services should submit to the JRC a description of these core skills and the actions taken to achieve the Secretary's skill maintenance standards. The Services should submit to the JRC these medical personnel requirements and fill rates.

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[307] The Code of the Federal Regulations specifies the priority level assigned to categories of DoD beneficiaries with space-available access to MTFs. Veterans and civilians should be added at a level below the existing priority groups, and EMC-related medical cases should be included as a factor in the prioritization. Veterans and civilians seeking medical treatment of the same type as DoD beneficiaries should not displace DoD beneficiaries in the existing priority groups.

- The Congress should adjust the flow of funding to better align DoD medical programs with their purpose and operations.
  - Funding for active-duty family, retiree, and Reserve Component health care should be contained in Services' Military Personnel (MILPERS) budget accounts.
  - The MERHCF should be expanded to cover the health care and pharmacy programs for non-Medicare-eligible retirees. Non-Medicare-eligible retiree health care should be accrual funded, similar to how Medicare-eligible retiree health care is today.
  - To finance the new health care program for active-duty families, RC members and families, and non-Medicare-eligible retirees (see Recommendation 6), funds should be transferred as follows:
    - For active-duty families and RC members and families, funds should be transferred from the MILPERS accounts to the Employee Health Benefits Fund managed by OPM.
    - For non-Medicare-eligible retirees, funds should be transferred from the MERHCF to the Employee Health Benefits Fund managed by OPM.
  - To finance the existing pharmacy and dental programs for families and RC members and families and pharmacy, dental, and health care for active-duty Service members, a new trust fund should be created and managed by DoD for health care expenditures appropriated in the current year.
  - The MTFs should be funded through a revolving fund using the reimbursements they receive for care delivered.
  - In the case of MTF operations that are deemed required for EMC skill maintenance, costs that exceed the revenue generated from the delivery of care should be paid by the Services' Operations and Maintenance (O&M) accounts. This amount would be a necessary cost of readiness of the medical force.
  - The Congress should eliminate the Defense Health Program budget account because health care should be funded from MILPERS accounts for transfer to the trust funds referenced above and readiness costs should be resourced from Services' O&M accounts.
- Catchment areas around MTFs should be rescinded, allowing MTFs to attract cases unrestricted by geographic vicinity.

Implementation:

- 10 U.S.C. Chapter 6 governs the Combatant Commands of the military. Chapter 6 should be amended by adding a new section that establishes a Joint Readiness Command (JRC).

- 10 U.S.C. § 155 governs the Joint Staff. This section should be amended to add a new provision that establishes a new directorate (J10) responsible for medical readiness.

- A new chapter, Chapter 174, Sustainment of Essential Medical Capabilities, should be created in Title 10 of the United States Code. The chapter should: establish a general definition of essential medical capabilities (EMCs); require the Secretary of Defense to establish EMCs in consultation with the JRC and to develop policies to maintain EMCs; require the Services to maintain EMCs and the JRC to track the Services' capabilities relating to EMCs; and require annual reporting to the Congress by both DoD and the Government Accountability Office on DoD's progress establishing EMCs and meeting goals relating to EMCs.

- Chapter 101, Title 10, U.S. Code governs general military training. Chapter 101 should be amended to add a new section, authorizing the Secretary of Defense and each Secretary concerned to permit military medical personnel to train in VA or civilian facilities.

- 5 CFR 199.17 should be amended to include veterans and civilians with EMC-related cases at a priority level below the existing beneficiary groups and to include EMC-related medical cases as a factor in the prioritization. The section should also be amended to eliminate geographic "catchment areas" for MTFs.

- Any other regulations (including the Code of Federal Regulations, if applicable) instructions, directives, or internal policies necessary to conform to the recommendation described above should be reissued, updated, amended, retracted, or otherwise changed as needed.

RECOMMENDATION 6: INCREASE ACCESS, CHOICE, AND VALUE OF HEALTH CARE FOR ACTIVE-DUTY FAMILY MEMBERS, RESERVE COMPONENT MEMBERS, AND RETIREES BY ALLOWING BENEFICIARIES TO CHOOSE FROM A SELECTION OF COMMERCIAL INSURANCE PLANS OFFERED THROUGH A DEPARTMENT OF DEFENSE HEALTH BENEFIT PROGRAM.

Background:
The Department of Defense's TRICARE program provides health care benefits for Active Component (AC) Service members, Reserve Component (RC) members, retirees, their dependents, survivors, and some former spouses at Military Treatment Facilities (MTFs) or through a network of civilian health care providers.[308] TRICARE comprises three main plans:[309] TRICARE Prime, which is structured as a health maintenance organization (HMO);[310] TRICARE Standard, which is a nonnetwork, fee-for-service (FFS)[311] plan;[312] and TRICARE Extra, which is also an FFS plan, but with a preferred provider organization (PPO).[313] Members of the National Guard and Reserve can purchase TRICARE Reserve Select, which is a premium-based health plan.[314]

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[308] *See generally* Armed, Forces, 10 U.S.C. ch. 55. *See also* Department of Defense, *Evaluation of the TRICARE Program: Access, Cost, and Quality, Fiscal Year 2013 Report to Congress*, 5, accessed June 20, 2014, http://tricare.mil/tma/dhcape/program/downloads/TRICARE2013%2002_28_13%20v2.pdf. Members of the Uniformed Services and their dependents also are eligible for TRICARE. See MCRMC, *Report of the Military Compensation and Retirement Modernization Commission: Interim Report*, June 2014, 116-117, http://www.mcrmc.gov/index.php/reports. The individuals listed are considered eligible "beneficiaries" for the TRICARE program. Additional information and discussion on eligibility requirements can be found at www.tricare.mil (https://www.tricare.mil/Plans/Eligibility.aspx), the official website of the Defense Health Agency (DHA), a component of the Military Health System.

[309] The President's Budget for FY 2015 included a proposal to consolidate TRICARE Prime, Standard, and Extra options into one plan. For a description of the PB 2015 health care proposals, see Office of the Undersecretary of Defense (Comptroller), *United States Department of Defense, Fiscal Year 2015 Budget Request Overview (March 2014)*, 5-10–5-14, accessed April 14, 2014, http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2015/fy2015_Budget_Request_Overview_Book.pdf.

[310] National Defense, 32 CFR 199.17(a)(6)(ii)(A). *See also* Department of Defense, *TRICARE Choices at a Glance*, 3, accessed June 20, 2014, http://www.tricare.mil/~/media/Files/TRICARE/Publications/BrochuresFlyers/Choices_Glance_BR.pdf. A Health Maintenance Organization (HMO) is "A type of health insurance plan that usually limits coverage to care from doctors who work for or contract with the HMO. It generally won't cover out-of-network care except in an emergency. An HMO may require you to live or work in its service area to be eligible for coverage. HMOs often provide integrated care and focus on prevention and wellness." "Health Maintenance Organization (HMO)," Healthcare.gov, accessed October 24, 2014, https://www.healthcare.gov/glossary/health-maintenance-organization-HMO/.

[311] Fee-for-Service is "a method in which doctors and other health care providers are paid for each service performed. Examples of services include tests and office visits." "Fee-for-Service," Healthcare.gov, accessed October 24, 2014, https://www.healthcare.gov/glossary/fee-for-service/.

[312] National Defense, 32 CFR 199.17(a)(6)(ii)(C). National Defense, 32 CFR 199.17(f). Department of Defense, *Evaluation of the TRICARE Program Fiscal Year 2014 Report to Congress*, 5, accessed June 20, 2014, http://www.tricare.mil/tma/congressionalinformation/downloads/TRICARE%20Program%20Effectiveness%20%28FY%202014%29%201.pdf.

[313] National Defense, 32 CFR 199.17(a)(6)(ii)(B). "TRICARE Standard and Extra," Defense Health Agency, accessed June 20, 2014, http://www.tricare.mil/Plans/HealthPlans/TSE.aspx. A Preferred Provider Organization is "A type of health plan that contracts with medical providers, such as hospitals and doctors, to create a network of participating providers. You pay less if you use providers that belong to the plan's network. You can use doctors, hospitals, and providers outside of the network for an additional cost." "Preferred Provider Organization," Healthcare.gov, accessed October, 24, 2014, https://www.healthcare.gov/glossary/preferred-provider-organization-PPO/.

[314] National Defense, 32 CFR 199.24(a)(1). Department of Defense, *TRICARE Choices at a Glance*, 4, accessed June 20, 2014, http://www.tricare.mil/~/media/Files/TRICARE/Publications/BrochuresFlyers/Choices_Glance_BR.pdf.

In TRICARE Prime, beneficiaries must enroll with a primary-care manager (PCM) in an MTF or with a civilian provider.[315] Care is predominantly accessed by first visiting the PCM, who refers patients for additional required care to other providers.[316] TRICARE Prime involves no costs for AC family members.[317] The annual enrollment fees for non-Medicare-eligible retirees in fiscal year 2015 are $277.92 for a single person and $555.84 for a family.[318] Retirees enrolled in Prime pay $12 copayments for outpatient visits unless they go to nonnetwork providers, in which case copayments carry a point-of-service charge.[319] In 2012, there were approximately 5.5 million beneficiaries enrolled in TRICARE Prime.[320]

Beneficiaries are not required to enroll in TRICARE Standard and Extra, but those who choose to use the two programs have an annual deductible for outpatient services.[321] They can see any provider without referral.[322] Annual deductibles vary from $50 to $300, depending on status (AC, RC, or retired) and pay grade.[323] Beneficiaries pay a share of procedure costs, but annual out-of-pocket (OOP) expenses are limited to a $1,000 catastrophic cap for AC and RC families per year, and a $3,000 catastrophic cap for all others, including retirees, per year.[324] TRICARE Reserve Select has a similar payment structure, except participants also pay monthly premiums of $50.75 for an individual or $205.62 for a family, as of January 1, 2015.[325] An estimated one million beneficiaries used TRICARE Standard and Extra at least once in 2012.[326] More than 240,000 RC members purchased TRICARE Reserve Select in 2012.[327]

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[315] National Defense, 32 CFR 199.17(n)(1); Assistant Secretary of Defense (Health Affairs) memorandum, *TRICARE Policy for Access to Care, February 23, 2011*, accessed November 6, 2014, http://www.health.mil/~/media/MHS/Policy%20Files/Import/11-005.ashx.

[316] "Book Appointments," Defense Health Agency, accessed December 19, 2014, http://www.tricare.mil/FindDoctor/Appointments.aspx.

[317] Department of Defense, *TRICARE Choices at a Glance*, 3, accessed June 20, 2014, http://www.tricare.mil/~/media/Files/TRICARE/Publications/BrochuresFlyers/Choices_Glance_BR.pdf.

[318] "Prime Enrollment Fees," Defense Health Agency, accessed October 24, 2014, http://www.tricare.mil/Costs/HealthPlanCosts/PrimeOptions/EnrollmentFees.aspx.

[319] "Prime Network Copayments," Defense Health Agency, accessed October 24, 2014, http://www.tricare.mil/Costs/HealthPlanCosts/PrimeOptions/Copayments.aspx. When Prime beneficiaries go to nonnetwork providers, they pay point-of-service fees instead of regular copayments. The cost for outpatient visits and hospitalization under this scenario is 50 percent of the TRICARE allowable charge. "Point of Service Option," Defense Health Agency, accessed November 5, 2014, http://www.tricare.mil/Costs/HealthPlanCosts/PrimeOptions/POS.aspx.

[320] "Approaches to Reducing Federal Spending on Military Health Care," Congressional Budget Office, January 2014, 7, accessed November 18, 2014, https://www.cbo.gov/publication/44993.

[321] National Defense, 32 CFR 199.17(m). Department of Defense, *TRICARE Standard Fact Sheet*, accessed June 20, 2014, http://www.tricare.mil/~/media/Files/TRICARE/Publications/FactSheets/TSE_FS.pdf.

[322] "TRICARE Standard and Extra," Defense Health Agency, accessed October 24, 2014, http://tricare.mil/Plans/HealthPlans/TSE.aspx.

[323] "TRICARE Standard and Extra Costs," Defense Health Agency, accessed October 24, 2014, http://www.tricare.mil/Costs/HealthPlanCosts/TSE.aspx.

[324] "Catastrophic Cap," Defense Health Agency, accessed December 18, 2014, http://www.tricare.mil/Costs/CatCap.aspx

[325] "TRICARE Reserve Select Costs," Defense Health Agency, accessed October 24, 2014, http://tricare.mil/Costs/HealthPlanCosts/TRS.aspx.

[326] "Approaches to Reducing Federal Spending on Military Health Care," Congressional Budget Office, January 2014, 7, accessed November 18, 2014, https://www.cbo.gov/publication/44993. Note that TRICARE Standard and Extra do not require enrollment and retirees often use Standard and Extra to supplement civilian health insurance, making it difficult to measure accurately the number of beneficiaries that rely on the program for their health coverage. Estimates of Standard and Extra users typically measure the number of beneficiaries who have used medical services under Standard or Extra at least once in the year under consideration.

[327] Department of Defense, *Evaluation of the TRICARE Program: Access, Cost, and Quality, Fiscal Year 2013 Report to Congress*, 96, accessed December 18, 2014, http://health.mil/Military-Health-Topics/Access-Cost-Quality-and-Safety/Health-Care-Program-Evaluation/Annual-Evaluation-of-the-TRICARE-Program.

The findings and recommendations below address the ways beneficiaries access health care, the choices they have regarding their care, and the value of this benefit. Under the Commission's recommended changes, AC members, because of readiness requirements, would still use their respective unit-level medical capability and, as necessary, MTFs as their primary access points for medical care. When referred to the private sector, AC members would have access to an unlimited network of providers at no cost to the member. DoD beneficiaries would continue to have access to care in MTFs.[328]

This recommendation would provide new financial tools, such as lower copayments and reduced reimbursement rates for certain procedures at MTFs, which could attract workload and particular complex cases to MTFs. This additional workload would provide training opportunities for military medical personnel to maintain critical combat care skills and remain ready for operational missions. These tools require strong, centralized oversight to be used efficiently and effectively to support joint medical readiness. Such oversight, along with associated definitions and skill maintenance standards, are discussed in detail in Recommendation 5 of this Report, which should be considered an integral part of this recommendation.

For additional information on TRICARE programs, please see the Health Benefits: Department of Defense sections of the Report of the Military Compensation and Retirement Modernization Commission: Interim Report *(sec. 4.1).*

Findings:
Since its creation, TRICARE has deteriorated relative to the goals of this Commission. The quality of TRICARE benefits as experienced by Service members and their families has decreased, and fiscal sustainability of the program has declined. For example, and as explained below, TRICARE costs for beneficiaries have not kept pace with inflation, increasing budgetary pressures within DoD. In response, DoD has revised TRICARE contracts to restrict benefits coverage, including the recent reduction in TRICARE Prime service areas; and TRICARE contractors have negotiated provider reimbursement rates below Medicare levels that have restricted access to care. Alternative means of providing health care to TRICARE beneficiaries could restore both quality and fiscal sustainability.

Access to Care

According to beneficiaries, timely and convenient access to care is a critical element of a high quality, properly functioning health care benefit, yet many TRICARE users expressed frustration with this element.[329] Typical of this concern was the comment of one survey respondent who wrote, "I have an assigned primary care provider, but never see them due to lack of available appointments. I usually see a different provider each time I make an appointment. There is no continuity of care."[330] Gaining access to medical services is largely dependent on the number of providers available to beneficiaries and the process and time required for beneficiaries to see those

[328] These findings and recommendations do indirectly affect the funding mechanism for MTFs, which is described in Recommendation 5. These funding changes, however, will not materially affect patient care or experiences within MTFs.
[329] See for example: Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[330] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.

providers. The Commission found areas for improvement with respect to both variables.

Cumbersome Referral and Authorization Process. The process enabling TRICARE Prime beneficiaries to gain access to care is often lengthy and frustrating. The Commission heard many complaints regarding the process by which beneficiaries make appointments with providers, including specialty providers that require prior authorization. One aspect of this process that often exasperates TRICARE Prime users is the amount of time that passes before they can see a specialty provider. According to DoD guidelines for scheduling appointments, beneficiaries seeking urgent care should be seen within 24 hours.[331] The goal for routine care is 7 calendar days, and wellness or nonurgent specialty care is 28 calendar days.[332]

The Commission found, however, that getting access to specialty care under TRICARE Prime can, in reality, take much longer and is often a complicated process. To receive access to TRICARE Prime services, beneficiaries must first see their primary care managers, who give referrals for additional care as needed.[333] Beneficiaries are referred for treatment in MTFs first, which have priority for providing both inpatient and specialty care for all TRICARE Prime enrollees.[334] If care is unavailable in an MTF, then referrals are given for treatment by civilian providers in the TRICARE network.[335]

In all cases, if an appointment cannot be provided within the prescribed timelines either in an MTF or the TRICARE network, the beneficiary would be offered the opportunity to seek the required care outside the TRICARE network.[336] Beneficiaries are referred to non-TRICARE network civilian providers "only when it is clearly in the best interest of the Government and the beneficiary, either clinically or financially."[337] If beneficiaries receive care without a referral, other than in an emergency situation, they may be subject to paying point-of-service OOP fees.[338] It can actually take as long as 35 days to receive specialty care based on DoD standards: 7 days for the first appointment for the primary care manager plus an additional 28 days for the specialty appointment.

There is considerable dissatisfaction with this situation. A survey respondent wrote, "It takes 30-60 days to have an appointment to see my primary care physician. That is unacceptable."[339] Another stated, "Access time to care is poor. [I] would rather pay for civilian service at times. [With the current system] I have to wait months to find out if

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[331] National Defense, 32 CFR 199.17(p)(5)(ii).
[332] National Defense, 32 CFR 199.17(p)(5)(ii).
[333] National Defense, 32 CFR 199.17(n)(1). Assistant Secretary of Defense (Health Affairs), *TRICARE Policy for Access to Care, February 23, 2011*, accessed November 6, 2014, http://www.health.mil/~/media/MHS/Policy%20Files/Import/11-005.ashx. "Book Appointments," Defense Health Agency, accessed October 23, 2014, http://www.tricare.mil/FindDoctor/Appointments.aspx.
[334] Assistant Secretary of Defense (Health Affairs), *TRICARE Policy for Access to Care, February 23, 2011*, 3, accessed November 6, 2014, http://www.health.mil/~/media/MHS/Policy%20Files/Import/11-005.ashx.
[335] When care is unavailable in an MTF, this usually means the care is not provided within the MTF or the care is not available within the time frame of the established standards for access to care. Assistant Secretary of Defense (Health Affairs), *TRICARE Policy for Access to Care, February 23, 2011*, 3, accessed November 6, 2014, http://www.health.mil/~/media/MHS/Policy%20Files/Import/11-005.ashx.
[336] Assistant Secretary of Defense (Health Affairs), *TRICARE Policy for Access to Care, February 23, 2011*, 3, accessed November 6, 2014, http://www.health.mil/~/media/MHS/Policy%20Files/Import/11-005.ashx.
[337] Ibid.
[338] "Book Appointments," Defense Health Agency, accessed October 23, 2014, http://tricare.mil/FindDoctor/Appointments.aspx. "Point-of-Service Option," Defense Health Agency, accessed October 23, 2014 http://tricare.mil/Costs/HealthPlanCosts/PrimeOptions/POS.aspx.
[339] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.

something is wrong then it is too late to [the] correct issue."[340] Another survey respondent explained, "It takes a month for my wife to get an appointment. This is totally unsatisfactory. Part of the reason I joined the Army was for the health care for my family."[341]

Numerous organizations have argued on behalf of Service members and their families for improved access standards and simplified referral processes. For example, the National Association for Children's Behavioral Health (NACBH) provided the Commission a written example of the problems beneficiaries experience when attempting to gain access to mental health providers in the TRICARE system:

> *"It is not unusual for a family member to be given a list of names and phone numbers for 30 to 100 community therapists, only to find that those providers are not currently accepting TRICARE patients, or that the first available appointment is too far in the future. In one instance, a mental health professional at the MTF called over 100 listed mental health providers and found only three who would accept new TRICARE referrals. Commonly, family members report that they give up after the tenth or eleventh call."*[342]

The Military Officers Association of America recently advocated for better access to care by "improving appointing systems, ensuring compliance with access timeliness standards by offering civilian appointments when military appointments are unavailable, and reducing/eliminating pre-authorization requirements that impede timely care delivery."[343] In the words of the National Military Family Association, "The current TRICARE Prime referral and authorization process can be cumbersome and sometimes prevents timely access to specialty care."[344] DoD survey data on access to care provides further evidence of the frustration conveyed by these groups. Figure 13 shows that civilians generally experience greater ease and timeliness in obtaining health care services than beneficiaries in TRICARE.[345] For example, as DoD reported,

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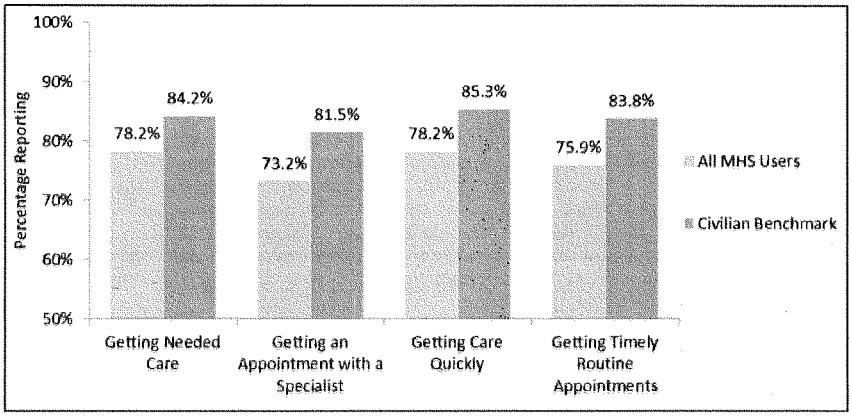
[340] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[341] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[342] National Association for Children's Behavioral Health, letter to MCRMC, 2, July 31, 2014.
[343] "TRICARE Prime and TRICARE Standard Improvements," Military Officers Association of America, accessed November 8, 2014, http://www.moaa.org/Main_Menu/Take_Action/Top_Issues/Serving_in_Uniform/TRICARE_Prime_and_TRICARE_Standard_Improvements.html.
[344] National Military Family Association, *Statement of the National Military Family Association before the Subcommittee on Military Personnel, Armed Services Committee, U.S. Senate, March 26, 2014*, 9, http://www.armed-services.senate.gov/imo/media/doc/Moakler_03-26-14.pdf.
[345] Department of Defense, *Evaluation of the TRICARE Program: Access, Cost, and Quality, Fiscal Year 2014 Report to Congress*, 38, http://www.tricare.mil/tma/congressionalinformation/downloads/TRICARE%20Program%20Effectiveness%20(FY%202014)%201.pdf. DoD conducts the Health Care Survey of DoD Beneficiaries (HCSDB) to assess customer satisfaction of TRICARE beneficiaries. The HCSDB questions are closely worded to, and results compared with, the Consumer Assessment of Healthcare Providers and Systems (CAHPS) surveys sponsored by the Agency for Healthcare Research and Quality. CAHPS surveys are nationally recognized resources for comparing health care experiences in the civilian sector. In the report, *Evaluation of the TRICARE Program*, DoD adjusts the CAHPS civilian benchmark data to account for demographic differences among the civilian and military populations. "Health Care Survey of DoD Beneficiaries (HCSDB) Overview," Defense Health Agency, accessed 23 October 2014, http://www.tricare.mil/survey/hcsurvey/. Department of Defense, *Evaluation of the TRICARE Program: Access, Cost, and Quality, Fiscal Year 2014 Report to Congress*, 99-100, accessed November 10, 2014, http://www.tricare.mil/tma/congressionalinformation/downloads/TRICARE%20Program%20Effectiveness%20(FY%202014)%201.pdf.

85.3 percent of civilian survey respondents said they received care quickly, as opposed to 78.2 percent of DoD health care users.[346]

Figure 13. Comparison of Access to Care for DoD and Civilian Health Care Users, FY 2013[347]



Beneficiaries' preferences regarding access to care are evident in the Commission's survey results. The survey included questions about the perceived value of several quality attributes pertaining to the health care benefit. Although choice was the most valued attribute (as will be discussed in more detail below), access measures such as flexible appointment scheduling, the ability to remain with the same provider, and the size of the network of available providers were all rated very highly by survey respondents. For retiree survey respondents, improving the flexibility of appointment scheduling was perceived higher than the value of a 30 percent grocery discount at commissaries.[348]

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[346] Department of Defense, *Evaluation of the TRICARE Program: Access, Cost, and Quality, Fiscal Year 2014 Report to Congress*, 38, http://www.tricare.mil/tma/congressionalinformation/downloads/TRICARE%20Program%20Effectiveness%20(FY%202014)%201.pdf. In the report, *Evaluation of the TRICARE Program*, DoD reports a "civilian benchmark" that adjusts CAHPS data to account for demographic differences among the civilian and military populations. The CAHPS and HCSDB surveys ask respondents about their access to care using composite measures of frequency. See Agency for Healthcare Research and Quality, *CAHPS Health Plan Surveys; Version: Adult Commercial Survey 5.0*, accessed December 6, 2014, https://cahps.ahrq.gov/surveys-guidance/survey5.0-docs/2151a_engadultcom_50.pdf and "TRICARE Adult Beneficiary Reports Help Index," Department of Defense, accessed December 6, 2014, http://www.tricare.mil/survey/hcsurvey/2014/bene/fy2014/html/help.htm#composite.

[347] Department of Defense, *Evaluation of the TRICARE Program: Access, Cost, and Quality, Fiscal Year 2014 Report to Congress*, 38, http://www.tricare.mil/tma/congressionalinformation/downloads/TRICARE%20Program%20Effectiveness%20(FY%202014)%201.pdf. In the report, *Evaluation of the TRICARE Program*, DoD reports a "civilian benchmark" that adjusts CAHPS data to account for demographic differences among the civilian and military populations.

[348] Survey results, MCRMC survey, July 1, 2014 to October 10, 2014.

DoD recently reviewed access to care under the Military Health System (MHS). DoD reported a range of 7 to 23 days in wait times to see specialty providers in MTFs;[349] however, DoD concluded there was a "notable difference between data that reflect compliance with access standards and the reported satisfaction of patients with their ability to receive timely care in MTFs."[350] The Commission's review of beneficiary comments and satisfaction surveys confirms there is widespread discontent for access to care within the MHS.

DoD also acknowledged that results across the system varied and insufficient data from the purchased care network impeded the analysis.[351] The number of days Prime beneficiaries wait to gain access to specialists in the purchased-care network is not available, but whether or not these beneficiaries' referrals result in an appointment within 28 days is known.[352] DoD reports the percentage of referrals that met the 28-day access standard for specialty appointments ranged from 53 percent to 84 percent in the purchased care network depending on the location.[353] In other words, in some locations approximately half of the referrals to the purchased care network resulted in beneficiaries waiting more than 28 days to see a specialist; and even in locations with the highest reported access to care, 16 percent of referrals still do not get appointments within the 28-day standard.

Gaining access to medical care in the civilian sector through various commercial insurance plans can be a simpler, quicker endeavor than under TRICARE. For example, a 2014 study surveyed about 1,400 physician offices to determine the average delays for physician appointments in 15 metropolitan areas and five specialties.[354] The study found, "The average cumulative wait time to see a physician for all five specialties surveyed in 2014 in all 15 markets was 18.5 days."[355]

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[349] Department of Defense, *Final Report to the Secretary of Defense: Military Health System Review*, August 2014, 47, accessed November 7, 2014, http://www.defense.gov/pubs/140930_MHS_Review_Final_Report_Main_Body.pdf. The DoD reported a precise range of 6.5 to 22.8 days, which is rounded here.

[350] Department of Defense, *Final Report to the Secretary of Defense: Military Health System Review*, August 2014, 4, accessed November 7, 2014, http://www.defense.gov/pubs/140930_MHS_Review_Final_Report_Main_Body.pdf.

[351] "The purchased care component [of the MHS], which is used when care cannot be provided within the military system, includes civilian network hospitals and providers operated through TRICARE regional contracts." Department of Defense, *Final Report to the Secretary of Defense: Military Health System Review, August 2014*, 2 and 4, accessed November 7, 2014, http://www.defense.gov/pubs/140930_MHS_Review_Final_Report_Main_Body.pdf.

[352] According to DoD, "purchased care data are not available, primarily due to alternative access measures defined by contract specifications, leaving a sizable blind spot for understanding access in the purchased care component." Department of Defense, *Final Report to the Secretary of Defense: Military Health System Review, August 2014*, 4, accessed December 22, 2014, http://www.defense.gov/pubs/140930_MHS_Review_Final_Report_Main_Body.pdf.

[353] Department of Defense, *Final Report to the Secretary of Defense: Military Health System Review, August 2014*, 66, accessed November 7, 2014, http://www.defense.gov/pubs/140930_MHS_Review_Final_Report_Main_Body.pdf. The percentage of referrals meeting the 28-day access standard varied from 53 percent and 84 percent based on Prime Service Area (PSA), which is the area within 40 miles of an MTF. The TRICARE regional contractors are required to establish networks of providers to serve PSAs. Department of Defense, *Final Report to the Secretary of Defense: Military Health System Review, August 2014, 64*, accessed November 7, 2014, http://www.defense.gov/pubs/140930_MHS_Review_Final_Report_Main_Body.pdf.

[354] Merritt Hawkins, *Physician Appointment Wait Times and Medicaid and Medicare Acceptance Rates*, 4, accessed October 23, 2014, http://www.merritthawkins.com/uploadedFiles/MerrittHawkings/Surveys/mha2014waitsurvPDF.pdf. The metropolitan areas were Atlanta, Boston, Dallas, Denver, Detroit, Houston, Los Angeles, Miami, Minneapolis, New York, Philadelphia, Portland, San Diego, Seattle, and Washington, D.C. The specialties were cardiology, dermatology, obstetrics-gynecology, orthopedic surgery, and family practice.

[355] Merritt Hawkins, *Physician Appointment Wait Times and Medicaid and Medicare Acceptance Rates*, 6, accessed October 23, 2014, http://www.merritthawkins.com/uploadedFiles/MerrittHawkings/Surveys/mha2014waitsurvPDF.pdf.

Limited Provider Networks. Another important part of good access to care is having ample health care providers available to provide treatment. The TRICARE networks of civilian health care providers, however, are limited because TRICARE reimburses providers for health care procedures at a rate equal to or lower than the Medicare reimbursement rate.[356] According to the U.S. Government Accountability Office (GAO), "Beginning in fiscal year 1991, in an effort to control escalating health care costs, the Congress instructed DoD to gradually lower its reimbursement rates for individual civilian providers to mirror those paid by Medicare."[357] GAO also reported that although TRICARE reimbursement rates are generally limited by law to Medicare rates, "network providers may agree to accept lower reimbursements as a condition of network membership."[358] As a result of TRICARE reimbursement rates negotiated by DoD's contractors, civilian providers "would not accept new TRICARE patients even though they would accept new Medicare patients."[359]

According to the American Academy of Pediatrics, "These discounts [below Medicare rates] can be as high as 20 percent, but are usually between 10 and 15 percent."[360] Studies have found because TRICARE offers reimbursement rates below those of other health plans, some providers refrain from accepting TRICARE patients or limit the number of TRICARE patients they will treat.[361]

Provider reimbursement rates have been a concern since TRICARE was implemented in the mid-1990s.[362] Most recently, GAO studied the breadth of the TRICARE network and concluded, "Overall, during 2008-2011, an estimated one in three nonenrolled beneficiaries (about 31 percent) experienced problems finding any type of civilian provider—primary, specialty, or mental health care provider—who would accept TRICARE."[363] The most cited reason why nonenrolled beneficiaries thought they were having issues getting access to providers (whether primary care, specialty care, or mental health) was "doctors not accepting TRICARE payments."[364] When providers themselves were surveyed, the reasons for not accepting new TRICARE patients varied by provider type, but the most common reason specialty providers offered was "reimbursement."[365] DoD beneficiaries' access to a full range of high quality doctors can be limited, especially in locations that are not robust, mature health care markets.[366]

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[356] Armed Forces, 10 U.S.C. §§ 1079(h), 1079(j), and 1086(f).
[357] Government Accountability Office, *Defense Health Care: Access to Civilian Providers under TRICARE Standard and Extra*, GAO-11-500 (June 2011), 11n, accessed October 19, 2014, http://www.gao.gov/new.items/d11500.pdf.
[358] Ibid, 11.
[359] Ibid, 15.
[360] American Academy of Pediatrics, Letter to Jonathon Woodson, MD, Assistant Secretary of Defense for Health Affairs, March 27, 2014, 11, accessed October 12, 2014,
http://www.autismspeaks.org/sites/default/files/docs/gr/aap_letter_on_fy13ndaa.pdf.
[361] *See, e.g.*, Government Accountability Office, *Defense Health Care: Access to Care for Beneficiaries Who Have Not Enrolled in TRICARE's Managed Care Option*, GAO-07-48 (December 2006),
http://www.gao.gov/assets/260/255029.pdf.
[362] Government Accountability Office, *Defense Health Care: Access to Civilian Providers under TRICARE Standard and Extra*, GAO-11-500 (June 2011), 14, accessed October 19, 2014, http://www.gao.gov/new.items/d11500.pdf.
[363] Government Accountability Office, *Defense Health Care: TRICARE Multiyear Surveys Indicate Problems with Access to Care for Nonenrolled Beneficiaries*, GAO-13-364, (April 2013), 18, accessed October 19, 2014,
http://www.gao.gov/assets/660/653487.pdf.
[364] Ibid, 22.
[365] Ibid, 31.
[366] Economic analysis can be used to understand the effects of price controls. When price is not allowed to adjust to equalize supply and demand in a market, then the market begins to adjust along nonprice margins to clear. Markets will use the least distorting nonprice margins first (usually aspects of quality such as timeliness of access, clinical

DoD's recent consideration of reducing payment levels for certain autism services is an example of the effect reimbursement rates can have on providers' willingness to accept TRICARE patients. In September 2014, DoD announced it would reduce by 46 percent the payment rates for one-on-one therapy with board-certified behavior analysts for dependents with autism spectrum disorder.[367] As noted in a survey conducted by Navigation Behavioral Consulting, 95 percent of TRICARE providers who treat children with autism spectrum disorder indicated they would reduce the services they offer, and 22 percent declared they would stop accepting TRICARE patients entirely if the reimbursement levels were changed.[368] DoD has since announced it will postpone the change pending further analysis of the prevalent rates in the civilian sector.[369]

A leading concern among TRICARE beneficiaries is the lack of doctors available to them in the TRICARE network. For example, one respondent to the Commission's survey noted, "TRICARE for my children has been a mess. Health Care Providers drop TRICARE frequently and we have to find a new provider often."[370] The Commission found that the principal reason TRICARE networks have an insufficient number of participating doctors is low provider payments. By reimbursing doctors at rates equal to or less than Medicare levels, which are less than market rates, TRICARE has been unable to attract enough quality doctors. In contrast, commercial insurance carriers in the civilian sector offer fair-market value for physicians' services. Furthermore, the civilian health care industry is able to adjust procedure reimbursement rates in response to changes in the supply and demand of physicians, or even to incentivize doctors to provide treatment more effectively and at lower cost. In fact, if DoD were to contract with commercial insurance carriers to provide beneficiaries health care plans, it would have a method for negotiating the rate at which insurance carriers reimburse for procedures performed at MTFs. This tool, as well as the others outlined in Recommendation 5, would allow DoD to attract cases to military hospitals and clinics. For beneficiaries, having a selection of commercial insurance plans would afford them the ability to choose a plan based on network, whether that is a robust network in general or simply the network that includes a particular provider.

Choice

The Commission focused on a few elements of choice most applicable to TRICARE and consistently raised by beneficiaries. In general, the Commission found TRICARE beneficiaries would prefer greater choice in health care.

Preference for Greater Choice. A common theme the Commission heard from beneficiaries was choice. Because the medical care one receives affects each person individually, personal choice is a critical component of a health benefit. Patients can exercise choice in a variety of ways—for instance, the selection of benefits that best

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quality, etc.) and, if all of these margins are exhausted and the market still has not cleared, ultimately refuse to take the patients. See Yoram Barzel, *Economic Analysis of Property Rights*, 2ed, (London: Cambridge University Press, 1997), for a detailed examination of the effects of price controls.

[367] Cheryl Pellerin, Defense Media Activity, "TRICARE Delays Change in Autism Reimbursement to April," *DoD News*, (October 10, 2014), accessed October 22, 2014, http://www.defense.gov/news/newsarticle.aspx?id=123387.

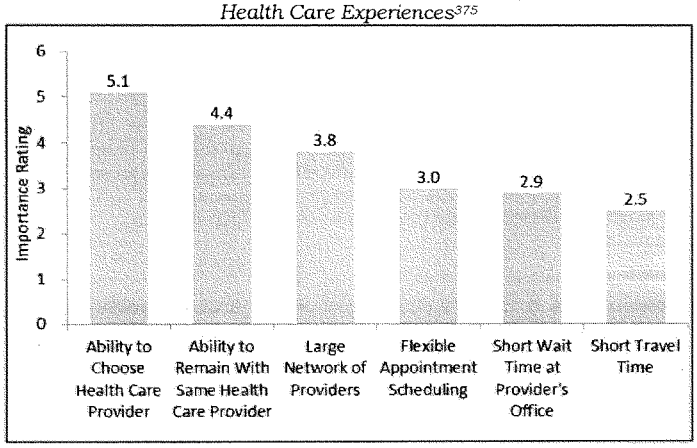
[368] Tim Devaney, "Pentagon to Delay Autism Spending Cuts," *The Hill*, (October 8, 2014), accessed October 22, 2014, http://thehill.com/regulation/defense/220215-pentagon-to-delay-autism-spending-cuts (discussing Navigation Behavioral Consulting's survey on ABA services provided by TRICARE providers, accessed January 5, 2015, http://freeonlinesurveys.com/app/rendersurvey.asp?sid=d5a987g5xf3fjca541500&refer=).

[369] Cheryl Pellerin, Defense Media Activity, "TRICARE Delays Change in Autism Reimbursement to April," *DoD News*, (October 10, 2014), accessed October 22, 2014, http://www.defense.gov/news/newsarticle.aspx?id=123387.

[370] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.

meets one's medical needs, the preference for physicians, and trade-offs between a health plan's costs and features. In fact, choice was advocated in sensing sessions with the Service members and family members, write-in comments from beneficiaries, and the evidence gathered in the Commission's survey of Service members and retirees. For example, a survey respondent explained the importance of choosing one's provider: "I feel that it is very important to be able to choose a health care provider, because when you are receiving care, you begin to trust that provider. When you find a provider that KNOWS you, and what works for YOU, that is important."[371] The Commission specifically asked about several aspects of choice in its survey. For all three categories of survey respondents (AC, RC, and retirees), choice of health care provider was the highest valued attribute from a list of six health care attributes provided.[372] For AC and RC members, the second most valued attribute was access to a large network of providers, a characteristic that encourages choice (this attribute was third for retirees).[373] For retirees, the perceived value of increasing choices among health care providers, which was only one of the six health care attributes presented, was higher than the value of a 35 percent grocery discount at commissaries or a 20 percent one-time cost of living adjustment.[374] Figure 14 provides the importance ratings for retiree survey respondents for the six attributes included.

Figure 14. Retirees' Importance Ratings: Health Care Experiences[375]



The results of the Commission survey are consistent with research reported in academic literature. In a study on employer-sponsored insurance with no or very limited choice among health care plans, researchers found that workers would be willing to forfeit 16 percent of their employer-provided health care subsidies for the

[371] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[372] The six attributes were (in order of preference for AC respondents) ability to choose provider, a large network of providers, flexibility in appointment scheduling, ability to remain with same provider (continuity of care), wait times at provider office, and travel time to provider.
[373] For active AC respondents, this attribute was second in average ranking but third in median perceived value.
[374] Survey results, MCRMC survey, July 1, 2014 to October 10, 2014.
[375] Survey results, MCRMC survey, July 1, 2014 to October 10, 2014.

freedom to use these subsidies to obtain their choice of plan from a menu of plans.[376] This research is especially pertinent because it studied workers who have very few choices among employer-provided health care plans, sometimes only one option. This situation is similar to TRICARE. In a scenario where beneficiaries are provided very few choices of plans, "The restriction of employee choice may prevent individuals and families from selecting the healthplan that best suits their needs, and from trading off added benefits against the associated premium increases."[377]

In the civilian sector, however, it is possible to offer a variety of plans that differ in benefits covered as well as program structure, including the procedures for obtaining care. Such is the case with respect to the Federal Employees Health Benefits Program (FEHBP), a Government-sponsored health program including more than 250 health insurance plans from which Federal civilian employees select coverage.[378] Enrollees, depending on their geographic location, have at least 11 plan options in rural areas and dozens of plan choices in metropolitan areas.[379] Types of plans range from HMOs and FFS plans with PPOs to consumer-driven health plans and high-deductible health plans.[380] In the FEHBP, all plans cover medical and surgical care, mental health and substance abuse treatment, maternity care and pediatrics, preventative care including tobacco cessation (with no cost share or copayment), hospitalization and outpatient care, diagnostic and laboratory testing, physical, occupational, and speech therapy, emergency and ambulance service, and prescription drugs.[381] The plan features that do vary are monthly premiums, copayments, coinsurance, deductibles, OOP maximums, and some covered benefits such as chiropractic care, acupuncture, infertility treatments, and dental care.[382] In an arrangement like FEHBP, users would have the assurance of a core set of standard covered benefits, with the flexibility to choose among plans' coverage and program designs.

A selection of commercial health insurance plans in the style of FEHBP would greatly expand choice in health care and consequently provide beneficiaries demonstrated value, as explained above. This could be a great improvement over TRICARE's three main plans or DoD's FY 2015 proposal to consolidate TRICARE Prime, Standard, and Extra into one plan.[383]

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[376] Leemore Dafny, Kate Ho, and Mauricio Varela, "Let Them Have Choice: Gains from Shifting Away from Employer-Sponsored Health Insurance and Toward an Individual Exchange," *American Economic Journal: Economic Policy*, 5, no. 1, (2013): 33, 56.
[377] Ibid, 32.
[378] Office of Personnel Management, *Federal Employees Health Benefits Program Overview*, provided to MCRMC in Executive Session, January 15, 2014. FEHBP offered 256 plan choices in 2014.
[379] Office of Personnel Management, *The 2015 Guide to Federal Benefits for Federal Civilian Employees*, revised November 2014, RI 70-1, 32, accessed November 13, 2014, http://www.opm.gov/healthcare-insurance/healthcare/plan-information/guide/2015-guides/70-1.pdf; "Healthcare Plan Information," Office of Personnel Management, accessed November 10, 2014, https://www.opm.gov/healthcare-insurance/healthcare/plan-information/compare-plans/.
[380] Office of Personnel Management, *Federal Employees Health Benefits Program Overview*, provided to MCRMC in Executive Session, January 15, 2013. For definitions of consumer-driven health plans and high deductible health plans, see "Plan Types," Office of Personnel Management, accessed November 10, 2014, https://www.opm.gov/healthcare-insurance/healthcare/plan-information/plan-types/.
[381] Office of Personnel Management, *Federal Employees Health Benefits Program Overview*, 9, provided to MCRMC in Executive Session, January 15, 2013.
[382] Ibid, 10
[383] Office of the Undersecretary of Defense (Comptroller), *United States Department of Defense Fiscal Year 2015 Budget Request Overview* (March 2014), 5-10 – 5-14, accessed November 9, 2014, http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2015/fy2015_Budget_Request_Overview_Book.pdf.

Uniform Benefits Coverage Restricts Beneficiary Choice. TRICARE only offers three main health care plans, but restricts choice through a one-size-fits-all approach to covered benefits and determinations of medical necessity. Currently, the military health care benefit is "a uniform program of medical and dental care for members and certain former members of [the] Services, and for their dependents."[384] Because it is a uniform benefit, the TRICARE plan includes a common set of covered benefits for 9.6 million eligible dependents, retirees, and RC members across the world.[385] DoD determines the covered benefits for all beneficiaries based on "whether, from a medical point of view, the care is appropriate, reasonable, and adequate for the condition."[386] This uniformity of health care coverage can prevent beneficiaries from accessing certain medical treatments and services based on their individual needs. For this reason, some groups have advocated for more robust coverage of benefits under TRICARE. For example, the American Academy of Pediatrics (AAP) recently recommended that DoD broaden its benefit package for children of military members by adopting a more comprehensive regimen based on the Early and Periodic Screening, Diagnosis, and Treatment principles of care and the Bright Futures guidelines for preventative care.[387] AAP stated that DoD should change its definition of medical necessity to accommodate children's particular health care needs.[388] The Military Officers Association of America recently made the case more frankly on its website, "One size does not fit all when it comes to meeting the health care needs of our military children."[389]

The appeals process for TRICARE coverage and decisions regarding medical necessity recently have come under scrutiny for being unfair.[390] Military advocacy groups have argued that the appeals process is lengthy, confusing, and arbitrary.[391] In response to a Senate Armed Services Committee inquiry, DoD submitted a report to the Congress

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[384] Armed Forces, 10 U.S.C. § 1071. The Commission understands that dental care is offered through commercial insurance.

[385] Department of Defense, *Evaluation of the TRICARE Program: Access, Cost, and Quality, Fiscal Year 2014 Report to Congress*, 12, accessed December 19, 2014, http://www.tricare.mil/tma/congressionalinformation/downloads/TRICARE%20Program%20Effectiveness%20(FY%202014)%201.pdf.

[386] Department of Defense, *TRICARE Appeals Fact Sheet*, accessed August 13, 2014, www.tricare.mil/~/media/Files/TRICARE/Publications/FactSheets/Appeals_FS.pdf.

[387] American Academy of Pediatrics, *Letter to Jonathon Woodson, MD, Assistant Secretary of Defense for Health Affairs*, March 27, 2014, 3-5, accessed October 12, 2014, http://www.autismspeaks.org/sites/default/files/docs/gr/aap_letter_on_fy13ndaa.pdf. AAP notes that TRICARE "largely mirrors the federal Medicare program, which is primarily focused on adults. (p. 3)" AAP therefore urges DoD to adopt the EPSDT standards, which are used in Medicaid and meet the specific "physical, emotional, and development needs of children (p. 4)." Bright Futures is a nationwide health-promotion and preventative-care program for infants, children, and adolescents required in section 2713 of the Affordable Care Act.

[388] American Academy of Pediatrics, *Letter to Jonathon Woodson, MD, Assistant Secretary of Defense for Health Affairs*, March 27, 2014, 3-6, accessed October 12, 2014, http://www.autismspeaks.org/sites/default/files/docs/gr/aap_letter_on_fy13ndaa.pdf.

[389] "TRICARE for Kids Stakeholders Respond to DoD Study," Military Officers Association of America, accessed October 12, 2014, http://moaablogs.org/spouse/2014/09/tricare-for-kids-stakeholders-respond-to-dod-study/.

[390] Committee on Armed Services, *Report to Accompany S. 1197, the National Defense Authorization Act for Fiscal Year 2014*, S. Rpt 113-44 (June 20, 2013), 134, accessed November 21, 2014, http://www.gpo.gov/fdsys/pkg/CRPT-113srpt44/pdf/CRPT-113srpt44.pdf.

[391] Amy Bushatz, "Report: Tricare Appeals Taking a Year," *Military.com*, (June 13, 2014), accessed November 21, 2014, http://www.military.com/daily-news/2014/06/13/report-tricare-appeals-taking-a-year.html?comp=700001075741&rank=2.

on the TRICARE appeals process, which demonstrated the confusing nature of the appeals process.[392]

DoD described how beneficiaries might appeal medical necessity decisions through a multilevel, sequential process that involves requests for the TRICARE contractor's reconsideration, peer reviews conducted by physicians, hearings, and final decisions by the Director of the Defense Health Agency (DHA). In cases when a decision will establish precedent for the TRICARE program, the Assistant Secretary of Defense for Health Affairs makes the final decision.[393]

DoD reported that during the period between 2009 and 2013, the time required for appeals to proceed from initial submission to the third level of appeal (a hearing) was an average of 346 days.[394] The longest period was 424 days in 2009.[395] The DoD report also stated that the Director of the DHA reviews all decisions resulting from appeals hearings and either adopts, rejects, or in the case of setting precedent refers the decision to the Assistant Secretary of Defense for Health Affairs.[396] Between 2009 and 2013, 15 percent of hearings were overturned at higher levels.[397] "Military healthcare advocates called Tricare's ability to simply overturn a hearing officer's decision potentially 'arbitrary.' "[398]

TRICARE's one-size-fits-all approach to covered benefits would not exist if DoD instead offered a program that presented a variety of options in commercial insurance plans. There are clear benefits to having alternatives among plans. When beneficiaries are able to pick their ideal plan from a selection of many offerings, they are empowered to choose from among the different plans' benefits coverage so as to best address their medical needs. Whether or not a procedure is medically necessary would no longer be a DoD decision.

Undesirable Choices for Reserve Component. The Commission found that RC members are faced with difficult choices during mobilization and demobilization. These transitions can be costly for the RC families and disruptive to their health care coverage, especially for Service members who are mobilized in support of a mission that is not a contingency operation. Currently, when RC members are ordered to active duty for more than 30 consecutive days, they and their families gain access to the health and dental benefits of active-duty Service members and their dependents.[399] If mobilized in support of contingency operations, RC members may be eligible for active-duty health benefits starting up to 180 days prior to the date that the active-

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[392] Committee on Armed Services, *Report to Accompany S. 1197, the National Defense Authorization Act for Fiscal Year 2014*, S. Rpt 113-44 (June 20, 2013), 134, accessed November 21, 2014, http://www.gpo.gov/fdsys/pkg/CRPT-113srpt44/pdf/CRPT-113srpt44.pdf.
[393] Department of Defense, *TRICARE Appeal Process in Fiscal Year 2014: Report to Congress*, June 4, 2014, accessed August 13, 2014, http://www.tricare.mil/tma/congressionalinformation/report_cong.aspx.
[394] Ibid, 6.
[395] Ibid, 6
[396] Ibid, 4
[397] Ibid, 7.
[398] Amy Bushatz, "Report: Tricare Appeals Taking a Year," *Military.com*, (June 13, 2014), accessed November 21, 2014, http://www.military.com/daily-news/2014/06/13/report-tricare-appeals-taking-a-year.html?comp=700001075741&rank=2.
[399] Armed Forces, 10 U.S.C. §§ 1074, 1074a, and 1076a. Defense Health Agency, *TRICARE Dental Options Fact Sheet*, accessed December 10, 2014, http://www.tricare.mil/CoveredServices/Dental/NGRDental.aspx. "Dental Plans," Defense Health Agency, accessed June 20, 2014, http://www.tricare.mil/Plans/DentalPlans.aspx.

duty service begins.[400] Similarly, RC members who are demobilized from active duty after supporting a contingency operation for more than 30 days are eligible for continued health care benefits for 180 days under the Transition Assistance Management Program (TAMP). [401]

The Commission has learned the practical effect of this authorized benefit can pose great challenges to RC members when they mobilize and demobilize and are moved on and off the TRICARE system. For example, the family of an RC member who has a private-sector job and employer-sponsored insurance for which the member pays a share of the insurance premium could, upon mobilization, transition to TRICARE or remain on its existing health care plan. Either of these options has the potential to burden the family. If the family transitions to TRICARE, it risks the loss of continuity of care if the family's existing health care providers do not accept TRICARE. Continuity again may be lost when the Service member demobilizes and the member and family have to transition back to their civilian health insurance plans. Conversely, if the family stays on an existing health care plan, it risks trading additional, sometimes substantial, costs for continuity of care. In this option, the RC member must continue to pay the employee's share of the insurance premium. In cases where the employer stops paying the employer's share of the premium, the RC member would need to fully fund the existing health insurance. This situation could result in substantial financial hardship for RC members while they are serving on active duty.

These issues experienced during transition periods are even more severe when the RC member is not supporting a contingency operation. In such cases, TAMP benefits are unavailable,[402] so TRICARE coverage ends abruptly upon demobilization. This situation could result in a break in coverage until coverage can resume under the civilian health insurance plan.

Given the hardships RC families experience when their sponsors mobilize and demobilize, it is worth considering a different approach to health care for the RC. In particular, providing RC members access to commercial health insurance may better suit their families' needs and the unique RC experience. Instead of the current TRICARE program, a menu of DoD-sponsored commercial health insurance plans could more closely resemble the plans offered through RC members' employers, especially with regard to provider networks. A DoD-sponsored commercial insurance plan could allow for an easier transition with better continuity of care during mobilization because it is more likely the RC families' current physicians would participate in traditional commercial insurance networks than the TRICARE network for two reasons.

First, as demonstrated earlier, TRICARE's low reimbursement rates cause less participation among providers. Second, health care markets, including their supply of doctors and the rates for procedures, vary substantially by geographic location.[403]

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[400] Armed Forces, 10 U.S.C. § 1074. Department of Defense, *TRICARE Choices for National Guard and Reserve at a Glance*, 3, accessed December 22, 2014, http://tricare.mil/~/media/Files/TRICARE/Publications/BrochuresFlyers/NGR_Choices_Brochure.pdf. The date that active-duty service begins is registered in the Defense Enrollment Eligibility Reporting System (DEERS).

[401] Armed Forces, 10 U.S.C. § 1145 (a)(1), a(4). National Defense, 32 CFR 199.3(e).

[402] Armed Forces, 10 U.S.C. § 1145 (a)(1), a(4). National Defense, 32 CFR 199.3(e).

[403] As an illustration of how local health care markets vary, see the California Health Care Foundation's (CHCF's) research on six communities in California. CHCF's study determined that the six regions represent diverse health care landscapes due to the local characteristics of health care, including differences in economic, demographic, health care

Whether commercial health insurance carriers operate nationally, regionally, or locally, they specialize in organizing networks and delivering health care suited to local markets. A selection of commercial insurance plans is more likely than TRICARE to reflect the conditions of the local health care market, including a network that incorporates available doctors. Moreover, DoD is considering the further centralization of its TRICARE regional contracts from three regions (North, South, and West) to two (East and West),[404] even though many assert that health care is local.[405] Offering RC Service members commercial health insurance could greatly enhance their access to doctors and strong networks of providers.

Alternatively, to aid the financial burden RC members experience when they purchase their existing civilian health care plan during service on active duty, DoD could fund part of the RC member's existing health insurance plan instead of requiring transition to the DoD-sponsored commercial insurance program.[406] The National Military Family Association testified before the Commission, "instead of trying to jerry rig a TRICARE benefit in rural Pennsylvania [for example] where there isn't the provider knowledge about TRICARE, where we are forcing families to change health plans at a time when they already are experiencing enough stress, let's look for a way to stay with what they have because that community understands them. They are used to their providers. Their providers are used to their medical condition. So we would recommend for those Guard and Reserve families the option of just having some subsidy to remain on their employer-sponsored plan."[407]

Both solutions would resolve the issues RC members experience during mobilization and demobilization, which in turn could reduce the financial hardship for those who pay the total premium and improve the continuity of care they enjoy from their current physicians and preferred health care plans.[408] Even when not transitioning to active duty, a DoD-sponsored commercial insurance plan could provide a better benefit to eligible members of the RC who purchase health care through the DoD.[409] Instead of relying on particularly meager TRICARE provider networks in rural areas far from military installations, RC members would have the opportunity to select from several commercial health insurance plans operating in their area. Providing better choices to the RC, as well as improving other beneficiaries' choice of benefits and plans, could greatly enhance the health benefit available to AC families, the RC, and non-Medicare-eligible retirees.

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delivery, and health care pricing variables. "Briefing—All Health Care Is Local: California's Diverse Health Economies," California Health Care Foundation, accessed October 23, 2014, http://www.chcf.org/events/2012/briefing-health-care-local. "Local Markets," California Health Care Foundation, accessed December 19, 2014, http://www.chcf.org/almanac/regional-markets.

[404] Defense Health Agency, *TRICARE Managed Care Support T2017*, draft request for proposal in preparation of a future TRICARE Managed Care Support Solicitation T2017, November 4, 2014, accessed November 9, 2014, https://www.fbo.gov/index?id=9535ef216d4e0fa956ea10f9cb4076be.

[405] *See, e.g.*, "Briefing—All Health Care Is Local: California's Diverse Health Economies," California Health Care Foundation, accessed October 23, 2014, http://www.chcf.org/events/2012/briefing-health-care-local.

[406] Under the current system, when RC Service members are mobilized and become eligible for TRICARE, some RC families choose to stay on their civilian health plans, absorbing the cost of the employee's portion of the monthly premium and sometimes the total premium. Total premium refers to both the employee's and employer's share of the premium.

[407] Joyce Raezer, National Military Family Association, testimony given at MCRMC public hearing, Fort Belvoir, Virginia, November 4, 2013, 30, http://www.mcrmc.gov/index.php/schedule.

[408] Total premium refers to both the employee's and employer's share of the premium.

[409] These Service members purchase TRICARE Reserve Select or TRICARE Retired Reserve. National Defense, 32 CFR 199.24 and National Defense, 32 CFR 199.25.

Value

The Commission also determined TRICARE needed improvement with respect to value. Value, as it is used in this report, is described as a high quality health benefit that is provided efficiently. Certain structural aspects of the TRICARE program, including its contracting procedures, its restrictive framework that prevents adaptation, and its lack of tools to limit over-utilization of services, have hindered efficient operations.

Complexity in Contracting. Under TRICARE, there are three regional contractors in the North, South, and West regions of the United States that manage health care operations purchased through civilian providers.[410] The process by which TRICARE's contracts are awarded is complicated, prolonged, and characterized by protests and delays. These contracting delays result in increased program costs.

DoD's process for awarding the three most recent TRICARE managed care support contracts (MCSCs) for the North, South, and West regions began in 2008.[411] Each contract award was protested by unsuccessful bidders. These protests were upheld, triggering corrective actions that resulted in new award decisions in all three regions.[412] The new award decisions were further protested in two of the three regions.[413] Although the new TRICARE contracts were originally scheduled to start in 2010, these repeated protests were not resolved until 2013.[414] "As a result of the bid protest process and [TRICARE Management Activity's (TMA)] implementation of corrective actions to address the issues in the sustained bid protests, the performance periods of the finalized MCSCs are no longer aligned. According to a TRICARE program official, the performance periods for the MCSCs are expected to end in 2015 in the North region, in 2017 in the South region, and in 2018 in the West region."[415] Contracting costs are expected to increase because option years will need to be exercised to align the MCSCs' end dates.[416]

The TRICARE contracting process has also adversely affected patient experience due to difficult transitions between regional contractors. For example, in April 2013 following the transition to UnitedHealth in the TRICARE West region, beneficiaries experienced issues with referral authorization and customer service.[417] The California Medical Association conducted a survey of 321 practices that represented more than 27 different specialties. The study found that 75 percent of practices reported problems during the transition to UnitedHealth, including difficulty processing authorizations and referral requests. Forty-two percent of those practices that had issues with the transition indicated transition issues negatively affected patient

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[410] Department of Defense, *Evaluation of the TRICARE Program: Access, Cost, and Quality, Fiscal Year 2014 Report to Congress*, 5, accessed November 4, 2014, http://www.tricare.mil/tma/congressionalinformation/downloads/TRICARE%20Program%20Effectiveness%20(FY%202014)%201.pdf.

[411] Government Accountability Office, *Defense Health Care: Acquisition Process for TRICARE's Third Generation of Managed Care Support Contracts*, GAO-14-195, (March 2014), 5, accessed October 20, 2014, http://www.gao.gov/products/GAO-14-195 (discussing protests by Health Net Federal Services, LLC (B-401652); Humana Military Healthcare Services (B-401652.2, et al.); Health Net Federal Services, LLC (B-401652.3 and B-401652.5); and, United Health Military Veterans Services (agency-level protest)).

[412] Ibid, 15.

[413] Ibid, 15.

[414] Ibid, 5.

[415] Ibid, 20.

[416] Ibid, 20.

[417] Ibid, 20-21.

care.[418] The problems in the delivery of the TRICARE benefit grew so severe that DoD eventually stepped in to provide temporary relief by permitting TRICARE Prime beneficiaries in the West region to see specialists without prior authorization from the managed care support contractor in that region.[419] According to GAO, "Despite these difficulties, approximately 10 months after the start of health care delivery, TMA paid UnitedHealth the remainder of its $10 million transition-in payment after UnitedHealth completed its transition requirements."[420] In GAO's assessment of the transition of MCSCs in the West region, it found "numerous deficiencies in TMA's guidance and oversight" that led to a "complacent approach by [TRICARE Regional Office-West] officials, who did little to hold the contractor accountable during the transition."[421]

The TRICARE contracting process has also contributed to the deterioration of beneficiary access to medical providers. As mentioned above, TRICARE contractors negotiate provider reimbursement rates that are lower than Medicare rates. This situation reduces costs for DoD, but it also reduces access to care for TRICARE beneficiaries. In addition, DoD's TMA decided to reduce TRICARE Prime service areas effective October 1, 2013.[422] This decision also reduced DoD health care costs by further restricting access for beneficiaries. A modernized military health benefit should rely on a more streamlined contracting process that promotes, rather than further restricts, health care access and benefit quality.

Slowness in Adapting to New Models and Innovation. In addition to the challenges noted above that are brought about by the complexity of the TRICARE contracts, the program is also limited in its infusion of new ideas from the private sector, which inhibits the adoption of the latest technological, clinical, or business advancements in the medical industry. This situation can negatively affect beneficiaries, as they are sometimes unable to access the medical technology, procedures, or treatments available to civilians who have private-sector health insurance.

In 2013 beneficiaries receiving care in the TRICARE network lost access to molecular screening for conditions such as cystic fibrosis, Fragile X Syndrome, spinal muscular atrophy, and some cancers due to a technical requirement in the TRICARE contracts. TRICARE discontinued coverage of more than 100 molecular diagnostic tests because these tests were assigned new medical procedure codes that classified them as medical devices.[423] Under the TRICARE regional contracts, DoD will only cover medical

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[418] "CMA Member Survey Confirms Significant Problems with TRICARE Transition," California Medical Association, accessed October 20, 2014, http://www.cmanet.org/news/detail/?article=cma-member-survey-confirms-significant.
[419] "TRICARE Eases Authorization Rules for West Region Beneficiaries," TRICARE Public Affairs Office, (May 7, 2013), accessed October 20, 2014, http://www.tricare.mil/About/MediaCenter/News/Archives/5_7_13_WestAuthorizations.aspx?p=1.
[420] Government Accountability Office, *Defense Health Care: More-Specific Guidance Needed for TRICARE's Managed Care Support Contractor Transitions*, GAO-14-505, (June 2014), 22, accessed November 20, 2014, http://www.gao.gov/assets/670/664196.pdf.
[421] Ibid.
[422] "TRICARE Moves Forward With Prime Service Area Reductions," Department of Defense, accessed December 17, 2014, http://www.defense.gov/news/newsarticle.aspx?id=120590.
[423] American Clinical Laboratory Association, *Statement submitted for the record, "Defense Health Agency," Hearing before the Subcommittee on Military Personnel, Armed Services Committee, U.S. House of Representatives, February 26, 2014*, accessed December 15, 2014, http://docs.house.gov/meetings/AS/AS02/20140226/101786/HHRG-113-AS02-20140226-SD001.pdf.

devices if the Food and Drug Administration (FDA) has approved them, yet the FDA does not review or approve genetic tests.[424]

What might appear like an abstruse coding policy, in reality, has great consequences for the health benefit available to military families. These tests are considered the standard of care by many professional guidelines.[425] According to the American Clinical Laboratory Association, "Molecular diagnostic tests represent the ever-advancing forefront of diagnostic medicine, and ensure that patients receive appropriate treatment. Without such testing, TRICARE beneficiaries will receive care that is inferior to that available to the general public."[426]

Because the molecular tests continued to be covered at MTFs, this restrictive policy also created disparity among beneficiaries who use the on-base military health system and those who rely on TRICARE's networks of purchased care.[427] Moreover, the policy change was not properly communicated to providers and beneficiaries, who continued to use the tests without reimbursement.[428] In response, the DHA is establishing a demonstration program under which 40 of the lab tests will again be covered under TRICARE.[429] DHA will also form a panel of in-house experts to review other genetic tests for safety and effectiveness.[430] This ad-hoc resolution, which does not fully address the scope and magnitude of this issue, required intervention by dozens of members of the Congress, military service organizations, and nonprofit health advocacy groups.[431]

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[424] Tom Philpott, "Tricare to Restore Coverage for up to 40 Genetic Lab Tests," *Stars and Stripes*, (July 10, 2014), accessed October 23, 2014, http://www.stripes.com/news/us/tricare-to-restore-coverage-for-up-to-40-genetic-lab-tests-1.292815.

[425] For example, "Cystic Fibrosis testing is the Standard of Care under the VA/DoD Clinical Practice Guideline for Management of Pregnancy and the American Congress of Obstetricians and Gynecologists' (ACOG) Guidelines. Furthermore, accurate EGFR mutation testing has been shown to both lower treatment costs and improve patient outcomes in non-small cell lung cancer (NSCLC), and is recommended for all NSCLC patients prior to initiating chemotherapy in the National Comprehensive Cancer Network (NCCN) guidelines." American Clinical Laboratory Association, *Statement submitted for the record, "Defense Health Agency," Hearing before the Subcommittee on Military Personnel, Armed Services Committee, U.S. House of Representatives, February 26, 2014*, accessed December 15, 2014, http://docs.house.gov/meetings/AS/AS02/20140226/101786/HHRG-113-AS02-20140226-SD001.pdf.

[426] Ibid, 2.

[427] Richard Burr, Kay Hagan, James Inhofe, et al. (letter signed by 51 senators and representatives), letter to Secretary Hagel, February 27, 2014, accessed October 23, 2014, http://www.burr.senate.gov/public/_files/LDTLetter.pdf.

[428] Ibid. Note that DoD has authorized retroactive reimbursement to beneficiaries and laboratories for the approximately 40 genetic tests it now covers through the Defense Health Agency Evaluation of Non-United States Food and Drug Administration Approved Laboratory Developed Tests Demonstration Project. "TRICARE Set to Cover Laboratory Developed Tests," Defense Health Agency, accessed October 23, 2014, http://www.health.mil/News/Articles/2014/08/15/TRICARE-Set-to-Cover-Laboratory-Developed-Tests.

[429] Tom Philpott, "Tricare to Restore Coverage for up to 40 Genetic Lab Tests," *Stars and Stripes*, (July 10, 2014), accessed October 23, 2014, http://www.stripes.com/news/us/tricare-to-restore-coverage-for-up-to-40-genetic-lab-tests-1.292815.

[430] Ibid.

[431] *See, e.g.*, Senator Kay Hagan, *Department of Defense Authorization of Appropriations for Fiscal Year 2015 and the Future Years Defense Program*, from U.S. Senate, March 5, 2014, accessed January 12, 2015, http://www.armed-services.senate.gov/imo/media/doc/14-13%20-%203-5-14.pdf. Richard Burr, Kay Hagan, James Inhofe, et al. (letter signed by 51 senators and representatives), letter to Secretary Hagel, February 27, 2014, accessed October 23, 2014, http://www.burr.senate.gov/public/_files/LDTLetter.pdf. "TRICARE to Restore Coverage for Some Lab Developed Tests," National Military Family Association, accessed October 23, 2014, http://www.militaryfamily.org/feature-articles/tricare-to-restore-coverage.html. American Clinical Laboratory Association, *Statement submitted for the record, "Defense Health Agency," Hearing before the Subcommittee on Military Personnel, Armed Services Committee, U.S. House of Representatives, February 26, 2014*, accessed December 15, 2014, http://docs.house.gov/meetings/AS/AS02/20140226/101786/HHRG-113-AS02-20140226-SD001.pdf. "TRICARE Letter from Genetic Alliance to House and Senate Armed Services Committee Leadership," Genetic Alliance, accessed October 23, 2014, http://www.acla.com/tricare-letter-from-genetic-alliance-to-house-and-senate-armed-services-committee-leadership/.

In 2014, the Congress passed legislation that authorized TRICARE to provide provisional coverage for emerging medical services and supplies.[432] This provisional coverage, however, lasts only 5 years and DoD may cancel it at any time.[433] After the 5-year period when provisional coverage of a medical service or supply expires, DoD is authorized to determine what coverage, if any, TRICARE will include.[434] Although this provisional coverage provides beneficiaries some access to medical innovations, it does not address fully the slowness with which TRICARE incorporates emerging techniques and technology from the medical industry.

In addition to innovations in technology and clinical treatments, the health care industry's systems for paying for and delivering care are also evolving more rapidly than TRICARE. Traditionally, payment and delivery models have been based on either the fee-for-service concept, for which every office visit, hospital procedure, and laboratory test generates an individual claim, or the health maintenance organization concept that coordinates comprehensive services in return for a prepaid, fixed charge. However, in the civilian health care sector, the differentiation between types of plans has become increasingly less distinct.[435] In particular, managed care, with techniques like financial incentives and treatment protocols, has become more common across the industry.[436] Currently there is an upswing in the use of reimbursement systems that are based on value over volume.[437] By employing value-based models, the industry has been able to incentivize physicians and hospitals to coordinate care, avoid unnecessary procedures, produce better health outcomes, and ultimately reduce costs.[438] TRICARE, by contrast, remains tied to the FFS and HMO models.[439] Under a menu of commercial health insurance plans, however, as the industry evolves to use new techniques in payment and delivery of care, the DoD health care program could also achieve better value.

As an illustration of TRICARE's structural issues, NAHCB informed the Commission of TRICARE's outdated delivery model and processes. Specifically, "TRICARE has not kept pace with advances in mental health care delivery, remaining locked in an

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[432] Carl Levin and Howard P. "Buck" McKeon National Defense Authorization Act for Fiscal Year 2015, H.R. 3979, section 704, accessed December 15, 2014, https://www.congress.gov/bill/113th-congress/house-bill/3979/text.
[433] Ibid.
[434] Ibid.
[435] Kaiser Family Foundation and Health Research & Educational Trust, *How Private Health Coverage Works: A Primer—2008 Update*, 4, accessed October 24, 2014, http://kff.org/health-costs/issue-brief/how-private-health-coverage-works-a-primer/.
[436] Ibid.
[437] "In an effort to control the growth of health care costs, risk-based [or value-based] reimbursement methodologies are slowly replacing fee-for-service as the predominant means through which physicians and providers will be paid." Catherine I. Hanson, "Introduction: Evaluating and Negotiating Emerging Payment Options," in *Evaluating and Negotiating Emerging Payment Options* (Chicago, IL: American Medical Association, 2012), 1.
[438] Value-based models include capitation, bundled payments, shared savings agreements, and pay-for-performance structures. Wes Cleveland, "Capitation," in *Evaluating and Negotiating Emerging Payment Options* (Chicago, IL, American Medical Association, 2012). Edgar Morrison Jr., "Bundled Payments," in *Evaluating and Negotiating Emerging Payment Options* (Chicago, IL, American Medical Association, 2012). Wes Cleveland, "Shared Savings Proposals," in *Evaluating and Negotiating Emerging Payment Options* (Chicago, IL, American Medical Association, 2012). Steve Ellwing, "Pay-for-Performance Programs," in *Evaluating and Negotiating Emerging Payment Options* (Chicago, IL: American Medical Association, 2012). Robert Barbour, "How to Establish Your Baseline Costs," in *Evaluating and Negotiating Emerging Payment Options* (Chicago, IL, American Medical Association, 2012).
[439] Defense Health Agency, Office of General Counsel, *Military Health System (including TRICARE and the TRICARE Program): Summary of Statutory Limits*, revised March 4, 2014, e-mail to MCRMC, March 11, 2014. According to the Office of General Counsel at the Defense Health Agency, "The TRICARE program (as implemented in 32 CFR § 199.17) has a 'triple option' structure: Standard is the default fee-for-service entitlement (10 U.S.C. §§ 1079, 1086 and 1097), Extra is the Preferred Provider Option (10 U.S.C. §§ 1079(n) and 1097(a)(2)), and Prime is the enbanced Uniform HMO Benefit option added by NDAA FY1994 § 731 and satisfying the separate requirements of the DoD Appropriations Act of 1994, § 8025 (10 U.S.C. §§ 1097(a)(1) and 1097a)."

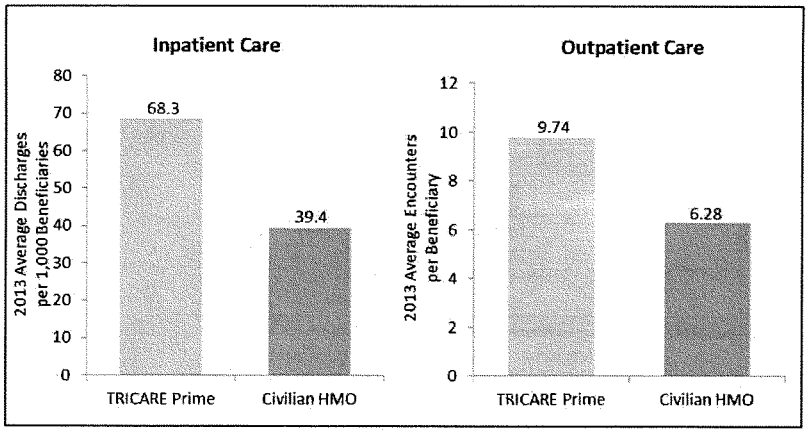
antiquated medical model. For example, TRICARE requirements for psychiatric residential treatment have not been updated in decades and include standards that are more prescriptive than any other public or private payer's, as well as more expensive to implement with no demonstrable relation to quality or effectiveness."[440] NAHCB emphasized these overly burdensome, outdated, and unnecessary TRICARE standards and processes discourage providers from participating in TRICARE networks.[441] This problem is in addition to TRICARE's use of below-market-value reimbursement rates that have already diminished provider participation in TRICARE, as was explained above.

Health care is a constantly changing industry. The features of health care, including technology and the models for paying for and delivering care, rapidly evolve. Rather than attempting to replicate a private-sector health care system within DoD, and consequently following behind, the Commission believes beneficiaries would be better served by having direct access to the innovations found in private-sector health care. Furthermore, under commercial insurance, carriers have the tools, including the advancements in payment and delivery models mentioned above and the monetary and nonmonetary incentives described below, to increase value by operating more efficiently.

Insufficient Tools to Manage Utilization. TRICARE beneficiaries use health care services at a significantly higher rate than do people with civilian health insurance plans. As shown in Figure 15, enrollees in TRICARE Prime during FY 2013 used inpatient services 73 percent more than civilians with HMOs.[442] Similarly, TRICARE Prime outpatient utilization rates were 55 percent higher than their civilian counterparts.[443]

[440] National Association for Children's Behavioral Health, letter to MCRMC, 1, July 31, 2014. "The TRICARE standards keep licensed, accredited, willing providers out of the network by their imposition of overly medical standards, an institutional treatment environment, a lengthy and expensive application process, and the requirement that TRICARE standards be applied to all children and adolescents in the same residential unit as a TRICARE beneficiary, regardless of who is paying for their care."
[441] Ibid.
[442] Department of Defense, *Evaluation of the TRICARE Program: Access, Cost, and Quality, Fiscal Year 2014 Report to Congress*, 74, http://www.tricare.mil/tma/congressionalinformation/downloads/TRICARE%20Program%20Effectiveness%20(FY%202014)%201.pdf.
[443] Ibid, 79.

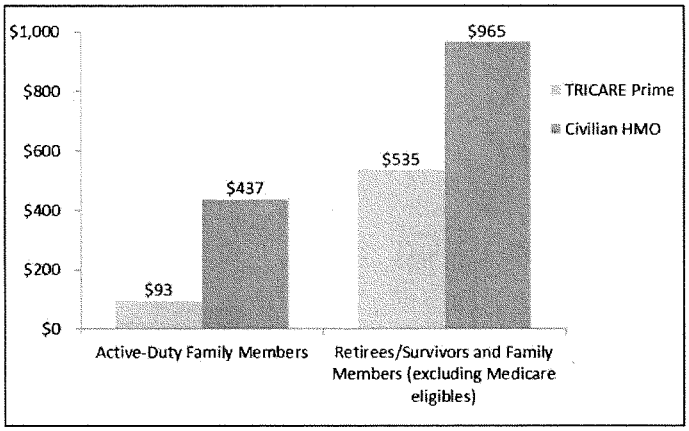
Figure 15. Utilization in TRICARE Prime and Civilian HMOs, FY 2013[444]



TRICARE is unable to effectively manage the rate at which users consume health care because it has limited use of monetary and nonmonetary incentives to influence beneficiaries' behavior and promote better health outcomes. One reason utilization is substantially greater in TRICARE than in the civilian sector is the relatively low OOP expenses—copayments, deductibles, and coinsurance—experienced by TRICARE beneficiaries compared to their civilian counterparts. A military retiree enrolled in TRICARE Prime pays nothing for an outpatient visit if it occurs at an MTF and $12 for providers in the purchased care network.[445] Civilians pay an average of $24 for a primary care outpatient visit in private sector employer-provided plans.[446] The total effect of these differences is that average OOP costs paid in a year are significantly less for a TRICARE beneficiary than for their civilian counterparts, as shown in Figure 16.

[444] Ibid, 74, 79. TRICARE Standard and Extra users have 2.5 times the inpatient utilization than their civilian PPO counterparts, but actually have 32 percent less outpatient utilization (see pages 75 and 80, respectively, of *Evaluation of the TRICARE Program*).
[445] "Prime Network Copayments," Defense Health Agency, accessed December 19, 2014, http://www.tricare.mil/Costs/HealthPlanCosts/PrimeOptions/Copayments.aspx.
[446] Kaiser Family Foundation and Health Research & Educational Trust, *Employer Health Benefits: 2014 Annual Survey*, 139, accessed October 1, 2014, http://files.kff.org/attachment/2014-employer-health-benefits-survey-full-report.

Figure 16. Average Deductible and Copayment Amounts in TRICARE Prime and Civilian HMOs, FY 2013[447]



If cost shares for DoD beneficiaries were to increase in conjunction with modernization of the military health benefit, this could reduce overall compensation. Raising beneficiaries' costs for health benefits without any compensating change elsewhere would drive a reduction in their total level of military compensation. Civilian health care innovation, however, has developed tools to address this problem. To involve patients in decisions of health care usage and expenses, the civilian health care sector has developed various funding mechanisms like health savings accounts, flexible spending arrangements, and health reimbursement arrangements.[448] DoD's use of allowances for subsistence and housing provides precedent for implementing a similar type of mechanism for military beneficiaries.

While OOP costs are an important tool the health care sector uses to manage consumption of services, they usually are used together with nonmonetary tools to achieve greater results. Nonprice methods lower utilization by, among other things, preventing hospital admissions, shortening inpatient stays, and avoiding readmission. Many argue these techniques also can lead to better health care outcomes through disease management, wellness, and better coordination of care.

An important example of these available techniques is provided by the U.S. Family Health Plan (USFHP), which is a DoD program that offers an alternative to TRICARE Prime in six areas of the country. Beneficiaries enroll in USFHP, pay Prime rates, and

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[447] Department of Defense, *Evaluation of the TRICARE Program: Access, Cost, and Quality, Fiscal Year 2014 Report to Congress*, 90, http://www.tricare.mil/tma/congressionalinformation/downloads/TRICARE%20Program%20Effectiveness%20(FY%202014)%201.pdf. Active-duty family members who are Standard and Extra users pay about 46 percent less in deductibles and copayments than their civilian PPO counterparts, and retirees and survivors pay about 28 percent less (see page 92 of *Evaluation of the TRICARE Program*).

[448] See Internal Revenue Service, *Health Savings Accounts and Other Tax-Favored Health Plans, IRS Publication 969*, accessed November 5, 2014, http://www.irs.gov/pub/irs-pdf/p969.pdf.

receive all their care through networks of community-based health care systems.[449] Enrollees who use the USFHP program experience the same copayment structure as TRICARE Prime enrollees,[450] but are in "population health" managed care plans.[451] In other words, USFHP shares the same price tools as the TRICARE Prime program but has at its disposal nonprice tools to manage patient care. These nonmonetary tools include strategies such as identifying high-risk patients, managing complex cases, keeping chronic diseases under control, and promoting wellness and preventative services.[452] The goals of these nonprice tools are to lower avoidable inpatient admissions, prevent inpatient readmissions, shorten the length of stay in hospitals, and reduce emergency room and urgent care visits.[453]

For example, all USFHP designated providers use a 24-hour telephone hotline that gives patients access to nurses or primary care doctors who offer general health information, self-care instructions, assistance scheduling next-day clinic appointments, and advice on whether to use emergency services immediately.[454] Additionally, registered-nurse case managers identify frequent users of emergency services (three or more visits in a year), follow up with the patients to assist them with care and medications, and refer the frequent users to high risk patient care programs if applicable.[455] As a result of these and other nonmonetary techniques, USFHP has found that its participants have 33 percent fewer inpatient days and 28 percent fewer emergency room visits than TRICARE Prime enrollees.[456]

Currently, TRICARE does not employ the complete range of price and nonprice techniques to affect beneficiary behavior and health care outcomes. At the Commission's public hearing in San Antonio, Texas, on January 7, 2014, a representative from Humana Government Business, which holds the TRICARE MCSC in the South region, provided examples of the tools Humana uses in its commercial insurance plans. These include both monetary and nonmonetary incentives to influence beneficiary behavior, such as reduced deductibles and earning iPods for healthy behavior.[457] When asked if Humana was able to use these tools from their commercial practice as part of their TRICARE contract, the Humana representative answered that TRICARE prohibits the MCSCs from incentivizing beneficiaries or

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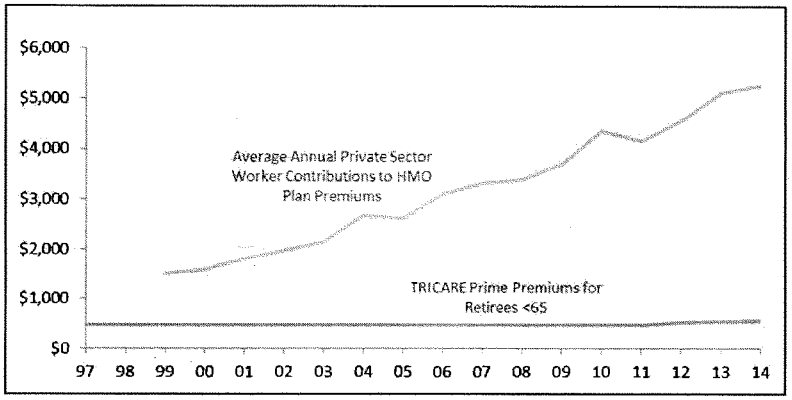
[449] For information on USFHP, see MCRMC, *Interim Report*, 86-87, accessed October 11, 2014, http://www.mcrmc.gov/public/docs/reports/MCRMC-Interim-Report-Final-HIRES-L.pdf.
[450] National Defense Authorization Act for FY 1997, Pub. L. No. 104-201, § 726, 110 Stat. 2422, 2596 (1996). "How does the US Family Health Plan compare to TRICARE Prime?" US Family Health Care, accessed April 14, 2014, http://www.usfhp.net/ask.asp#1. "TRICARE USFHP Enrollment Fees," US Family Health Plan, accessed June 20, 2014, http://www.tricare.mil/Costs/HealthPlanCosts/USFHP/EnrollmentFees.aspx. "TRICARE USFHP Copayments," US Family Health Plan, accessed June 20, 2014, http://www.tricare.mil/Costs/HealthPlanCosts/USFHP/NetworkCopayments.aspx. "TRICARE Prime Enrollment Fees," Defense Health Agency, accessed June 20, 2014, http://www.tricare.mil/Costs/HealthPlanCosts/PrimeOptions/EnrollmentFees.aspx. "TRICARE Prime Network Copayments," Defense Health Agency, accessed June 20, 2014, http://www.tricare.mil/Costs/HealthPlanCosts/PrimeOptions/Copayments.aspx.
[451] US Family Health Plan Alliance, letter to MCRMC, October 6, 2014.
[452] Ibid.
[453] US Family Health Plan Alliance, *Managed Care Approach Narrative*, memorandum to MCRMC staff, 1, received July 7, 2014.
[454] Ibid, 3.
[455] Ibid, 1.
[456] Inpatient hospital utilization equaled 400 days for USFHP and 600 days for TRICARE Prime (measured in days per 1,000 beneficiaries). Emergency room utilization equaled 325 visits for USFHP and 451 visits for TRICARE Prime (measured in visits per 1,000 beneficiaries). US Family Health Plan Alliance, letter to MCRMC, October 6, 2014.
[457] Sandra Delgado, Interim Chief Medical Officer for Humana Government Business, testimony given at MCRMC public Hearing, 22-23, San Antonio, TX, January 7, 2014 http://www.mcrmc.gov/public/docs/meetings/20140107/MCRMC_JBSH_7_Jan_14_AM_2.pdf.

providers.[458] With regard to "the ability for a managed-care support contractor to incentivize beneficiaries to take ownership over their own health, as many other commercial health plans currently do, [i]t's something that [MCSCs] are prohibited from doing. We cannot incentivize a beneficiary to take responsibility over their health."[459]

Monthly premiums generally do not affect the day-to-day utilization of services the way OOP expenses do, but it is worth noting TRICARE's unique situation with its enrollment fees. First, active-duty families and retirees do not pay an enrollment fee, or premium, for TRICARE Standard or Extra. Second, TRICARE Prime enrollment fees have largely remained constant for decades. For retirees younger than age 65 enrolled in TRICARE Prime, annual premiums were set in 1995 at $230 and $460 for individuals and family plans, respectively.[460] These premiums remained unchanged until 2012, when annual premium increases were tied to military retirement pay increases.[461] As shown in Figure 17, stagnant TRICARE Prime premiums have resulted in wide dispersions between the health costs of military retirees and other health care plans. In 1999, military retiree premiums for TRICARE Prime represented 31 percent of the civilian HMO average; by 2014, this had fallen to only 10 percent.

Figure 17. Annual Family Premiums, TRICARE Prime vs. Private Sector Health Care Plans[462]



[458] Ibid, 23-24.
[459] Ibid, 19.
[460] Department of Defense, *Evaluation of the TRICARE Program, Fiscal Year 2012 Report to Congress*, 7, accessed December 19, 2014, http://mldc.whs.mil/public/docs/library/health/2012_-_DoD_-_TRICARE_Evaluation_Report_-_FY12.pdf.
[461] Armed Forces, 10 U.S.C. § 1097(e)(2). National Defense Authorization Act for FY 2012, Pub. L. No. 112-81, § 701(b) (2011).
[462] Data from the Kaiser Family Foundation and Health Research & Educational Trust, *Employer Health Benefits: 2014 Annual Survey*, 98, accessed October 1, 2014, http://files.kff.org/attachment/2014-employer-health-benefits-survey-full-report. Department of Defense, *Evaluation of the TRICARE Program, Fiscal Year 2012 Report to Congress*, 7, accessed June 20, 2014, http://mldc.whs.mil/public/docs/library/health/2012_-_DoD_-_TRICARE_Evaluation_Report_-_FY12.pdf. Department of Defense, *Evaluation of the TRICARE Program: Access, Cost, and Quality, Fiscal Year 2014 Report to Congress*, 9, http://www.tricare.mil/tma/congressionalinformation/downloads/TRICARE%20Program%20Effectiveness%20(FY%202014)%201.pdf.

When the TRICARE program went into effect in 1996, the cost share for retirees younger than 65 was 27 percent of total health care costs.[463] By keeping cost-sharing for active-duty families and retirees younger than 65 nearly constant for 20 years, the beneficiaries' share of the program costs have declined significantly, causing a growing portion of the expense to be passed on to the Government. By FY 2014, the cost shares for non-Medicare-eligible retirees had declined to about 4 to 5 percent for individuals and 5 to 6 percent for families.[464] In comparison to the costs borne by the employee or annuitant in the civilian sector, TRICARE beneficiaries' cost-sharing rates are small. On average, civilian employees paid 29 percent of the premium for their family health coverage in 2014. Their employers contributed the remaining 71 percent.[465]

Efficiency in Program Operation. Managing the TRICARE program, including associated overhead costs, is more expensive than administering a program that offers commercial insurance plans. The Commission estimates DoD will have spent approximately $314 million in FY 2013 to administer the TRICARE health care benefit.[466] These figures are calculated based on Budget Activity Group (BAG) 5, "Management Activities," which finances headquarters operations in the Defense Health Agency and military Services. Of the seven BAGs, Management Activities is the one most closely associated with overhead functions. The Commission found it challenging to estimate the true costs to administer TRICARE because such costs are not readily visible in the Defense Health Program budget accounts. Although it is difficult to calculate the amount of military, civilian, and contractor personnel engaged in the administration of TRICARE, the Commission notes DoD allocated almost 2,900 total personnel to BAG 5, Management Activities in FY 2013.[467]

Although it differs from TRICARE, the FEHBP provides health care to more than 8.2 million participants, making it about the same size as TRICARE in terms of beneficiary population.[468] FEHBP offers beneficiaries more than 250 insurance plan choices provided by nearly 100 different contracts.[469] These plans are purchased on "evergreen" contracts that are renewed each year, allowing for flexibility, adaptation to current trends, and low contracting costs. Yet the Office of Personnel Management

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[463] Office of the Undersecretary of Defense (Comptroller), *United States Department of Defense Fiscal Year 2015 Budget Request Overview* (March 2014), 5-10, accessed April 14, 2014.
http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2015/fy2015_Budget_Request_Overview_Book.pdf.

[464] Commission calculation based on data from Military Health System Management Analysis and Reporting Tool: Inpatient Admissions (SIDR), Professional Encounters (CAPER), PC Institutional (TED-I), PC Non-Institutional (TED-N), and Pharmacy (PDTS) tables, and FY 2015 Budget Submission, accessed October 28, 2014.

[465] Kaiser Family Foundation and Health Research & Educational Trust, *Employer Health Benefits: 2014 Annual Survey, September 2014*, 85, accessed October 1, 2014, http://files.kff.org/attachment/2014-employer-health-benefits-survey-full-report.

[466] Department of Defense, *Defense Health Program Fiscal Year 2015 Budget Estimates, Volume 1: Justification Estimates, Operations and Maintenance, Management Activities*, MACT-3, accessed November 20, 2014, http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2015/budget_justification/pdfs/09_Defense_Health_Program/VOL_I_Sec_7_E_OP-5_Management_Activities_DHP_PB15.pdf.

[467] Ibid, MACT-9. The figure presented is a sum of active military average strength, civilian full-time equivalents, and contractor full-time equivalents in the BAG 5 Personnel Summary.

[468] Office of Personnel Management, "Federal Employees Health Benefits Program Overview," provided to MCRMC in Executive Session, January 15, 2014. There was an average of 9.5 million beneficiaries eligible for TRICARE, and an average of 8 million actual users of the program in fiscal year 2013. Department of Defense, *Evaluation of the TRICARE Program: Access, Cost, and Quality, Fiscal Year 2014 Report to Congress*, 19, accessed November 20, 2014, http://www.tricare.mil/tma/congressionalinformation/downloads/TRICARE%20Program%20Effectiveness%20(FY%202014)%201.pdf.

[469] Office of Personnel Management, *Federal Employees Health Benefits Program Overview*, provided to MCRMC in Executive Session, January 15, 2014. FEHBP offered 256 plan choices through 97 contracts with carriers in 2014.

(OPM)[470] administers this program with about 100 employees[471] who are paid for out of the FEHBP trust fund using resources from plan premiums instead of appropriated funds.[472]

OPM is required by statute to dedicate no more than 1 percent of plan premiums for FEHBP administrative expenses.[473] In 2014, the total cost of FEHBP premiums (the Government share plus the employees' share) was $47 billion,[474] 1 percent of which equals $470 million. OPM informed the Commission that it routinely requires less than 0.1 percent of the premiums to administer FEHBP.[475] This means that OPM required less than $47 million in 2014 to administer FEHBP. If OPM does not use the full 1 percent dedicated for administrative expenses, the unused portion returns to the trust fund for contingency reserves.[476]

The difference in operating costs and personnel required to manage the TRICARE and FEHBP programs is profound. Nevertheless, the TRICARE and FEHBP programs, as well as the roles of DoD and OPM, are fundamentally different. Essentially, OPM functions as the program manager, while DoD performs that role and others, including self-funded insurance carrier[477] and hospital administrator.[478]

Although FEHBP has many attractive features, the Commission believes that it would not be appropriate for military beneficiaries to be enrolled with Federal civilians in the FEHBP as currently configured because of the unique requirements of the military, such as those related to readiness, and recognition of military service. MTFs provide a training platform that maintains the readiness of the military medical force. To continue to attract the right kind of complex medical cases to support this training mission (e.g., trauma surgery), the MTFs need to remain a key element of military health care delivery. Typically, FEHBP plans do not incorporate MTFs as venues of care.

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[470] The Office of Personnel Management provided support for the Commission's analysis; however, such support does not represent an endorsement of, or suggest any opinion on, the report, study, or recommendations.
[471] Office of Personnel Management, *Congressional Budget Justification: Performance Budget Fiscal Year 2015,* March 2014, 182-83, accessed November 20, 2014, http://www.opm.gov/about-us/budget-performance/budgets/congressional-budget-justification-fy2015.pdf; Office of Personnel Management, e-mail to MCRMC, November 20, 2014.
[472] Employees Health Benefits Fund, 5 U.S.C. § 8909(b)(1).
[473] Employees Health Benefits Fund, 5 U.S.C. § 8909(b)(1).
[474] Office of Personnel Management, *Fact Sheet: 2013 Federal Benefits Open Season for Health Benefits, Dental and Vision Insurance and Flexible Spending Accounts,* provided to MCRMC in Executive Session, January 15, 2014. Office of Personnel Management, e-mail to MCRMC, November 21, 2014.
[475] Information provided by Office of Personnel Management, e-mail to MCRMC, November 6 and 25, 2014.
[476] Employees Health Benefits Fund, 5 U.S.C. § 8909(b)(2).
[477] The health benefit provided to military beneficiaries is a version of self-funded insurance. Self-insurance is a "plan offered by employers who directly assume the major cost of health insurance for their employees. Some self-insured plans bear the entire risk. Other self-insured employers insure against large claims by purchasing stop-loss coverage. Some self-insured employers contract with insurance carriers or third party administrators for claims processing and other administrative services; other self-insured plans are self-administered." "Definitions of Health Insurance Terms," Bureau of Labor Statistics, accessed October 19, 2014, http://www.bls.gov/ncs/ebs/sp/healthterms.pdf. Under the current system, DoD is obligated to provide health care to its beneficiaries and covers open-ended payments for services. In the self-insurance model, "the employer assumes the financial risk for providing health care benefits to its employees. In practical terms, self-insured employers pay for each out of pocket claim as it is incurred instead of paying a fixed premium to an insurance carrier, which is known as a fully-insured plan." "Self-Insured Group Health Plans," Self-Insurance Institute of America, Inc., accessed October, 19, 2014, http://www.siia.org/i4a/pages/Index.cfm?pageID=4546.
[478] Note that the $339 million in BAG 5, "Management Activities," does not include the full cost of performing the functions cited above, e.g. running the MTFs.

Additionally, military members have made great sacrifices for their country and their health benefit should reflect this sacrifice. The Commission believes FEHBP cost shares of approximately 30 percent for employees and 70 percent for the Government[479] are not appropriate for military members. Although it is possible to have different cost shares for different subpopulations in FEHBP (e.g., Postal employees), doing so could create confusion and might increase the chance that later decisions are made to harmonize the cost shares of the populations. Military beneficiaries need a concrete recognition of military service that is reflected in their cost shares and protected in the basic program design.

Many of the recent reform proposals to address growing costs in DoD's health care budget have focused principally on low cost shares and consequent over-utilization of services.[480] DoD has proposed increases to TRICARE fees several times in recent years.[481] As stated in conjunction with the President's Budget for FY 2015, the cost-sharing modifications DoD proposed were intended "largely to control health care costs."[482] The Commission believes, however, that to achieve better value and modernize the health care benefit, reform efforts must consider other aspects of TRICARE's structure besides cost shares. Increasing beneficiaries' cost shares is merely one way to achieve efficiencies. Other ways include a combination of monetary and nonmonetary tools that more effectively manages utilization than monetary tools alone and new advancements in payment and delivery models that lower costs. Additionally, the FEHBP program demonstrates that OPM is able to administer a strong health benefit with relatively low overhead expenses. Under a program of commercial health insurance that can use both monetary and nonmonetary tools to

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[479] Office of Personnel Management, *Federal Employees Health Benefits Program Questions & Answers*, provided to MCRMC in Executive Session, January 15, 2013. By law [Balanced Budget Act of 1997 (Public Law 105-33, approved August 5, 1997)], "... the Government contribution equals the lesser of: (1) 72 percent of amounts OPM determines are the program-wide weighted average of premiums in effect each year, for self only and for self and family enrollments, respectively, or (2) 75 percent of the total premium for the particular plan an enrollee selects." "Cost of Insurance," Office of Personnel Management, accessed October 24, 2014, https://www.opm.gov/healthcare-insurance/healthcare/reference-materials/reference/cost-of-insurance/#govshare.

[480] For example, see Congressional Budget Office, *Approaches to Reducing Federal Spending on Military Health Care* (Washington, DC: Government Printing Office, 2014). Lawrence J. Korb, Laura Conley, and Alex Rothman, Center for American Progress, *Restoring Tricare: Ensuring the Long Term Viability of the Military Health Care System*, accessed October 6, 2014, http://cdn.americanprogress.org/wp-content/uploads/issues/2011/02/pdf/tricare.pdf. Maren Leed and Brittany Gregerson, *Keeping Faith: Charting a Sustainable Path for Military Compensation*, (Washington DC: Center for Strategic & International Studies, 2011).

[481] Department of Defense, *Draft National Defense Authorization Act for Fiscal Year 2007*, section 702, 63-64, accessed October 3, 2014, http://www.dod.mil/dodgc/olc/docs/FY2007NDAA_BillText.pdf. Office of the Secretary of Defense, *Operations and Maintenance Overview: Fiscal Year 2007 Budget Estimates*, 15, accessed October 2, 2014, http://comptroller.defense.gov/Portals/45/Documents/defbudget/docs/fy2007_overview.pdf. Department of Defense, *Draft National Defense Authorization Act for Fiscal Year 2008*, section 701, 87-88, accessed October 3, 2014, http://www.dod.mil/dodgc/olc/docs/FY2008NDAA_BillText.pdf. Department of Defense, *Draft National Defense Authorization Act for Fiscal Year 2009*, section 701, 56-57, accessed October 3, 2014, http://www.dod.mil/dodgc/olc/docs/FY2009_NDAA_BillText.pdf. Office of the Undersecretary of Defense (Comptroller), *United States Department of Defense Fiscal Year 2012 Budget Request Overview*, 3-3, accessed October 3, 2014, http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2012/FY2012_Budget_Request_Overview_Book.pdf. Department of Defense, *Draft National Defense Authorization Act for Fiscal Year 2013*, section 701, 51-57, accessed October 3, 2014, http://www.dod.mil/dodgc/olc/docs/14March2012NDAABillText.pdf. Department of Defense, *Draft National Defense Authorization Act for Fiscal Year 2014*, section 701, 40-50, accessed October 3, 2014, http://www.dod.mil/dodgc/olc/docs/26April2013NDAABillText.pdf. Department of Defense, *Draft National Defense Authorization Act for Fiscal Year 2015*, section 701, 58-71, http://www.dod.mil/dodgc/olc/docs/1April2014NDAABillText.pdf.

[482] Office of the Undersecretary of Defense (Comptroller), *United States Department of Defense Fiscal Year 2015 Budget Request Overview*, 5-10, accessed April 14, 2014, http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2015/fy2015_Budget_Request_Overview_Book.pdf.

achieve efficiency, DoD, with the assistance of OPM, could offer a robust benefit at a better value with far less of the burden and expense required of DoD today.

Conclusions:
AC families, RC members, and retirees could receive a better health care benefit by allowing them to choose from a selection of commercial insurance plans offered through a DoD health benefit program administered by OPM. Through this proposal, DoD could increase beneficiaries' choice, enhance their access to care, and drive better value.

Under an insurance model, the ease and timeliness of patients' access to health care would improve because beneficiaries would not be subject to DoD's lengthy and frustrating process for making appointments and obtaining referrals. Providing such a benefit would also increase beneficiaries' access to care by greatly improving the network of health care providers in their insurance networks, especially in rural areas or those without substantial military presence. It would particularly assist RC members, as well as retirees, who often live away from major active-duty installations.

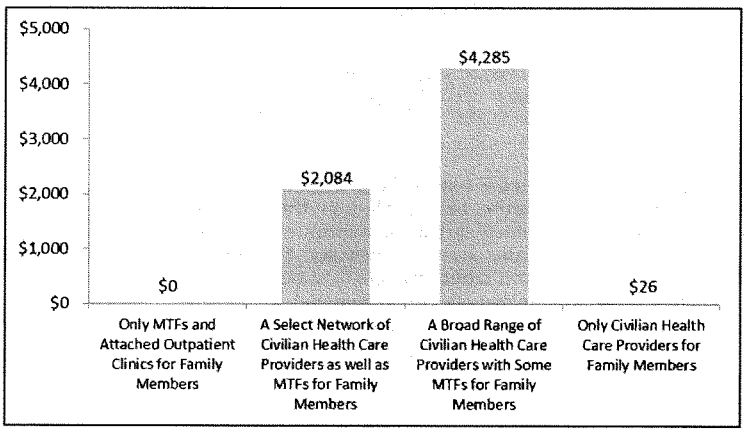
Additionally, by allowing them a choice of plans, beneficiaries could select insurance coverage that ensures a baseline of high quality health care and best aligns to their individual needs. A DoD health benefit program that offers commercial insurance would also more closely resemble or overlap with RC families' health plans they purchase from the civilian sector. This approach would aid continuity of care when RC members are mobilized and demobilized.

Finally, instead of relying on TRICARE, a system that structurally does not provide a high quality health care program efficiently, DoD would achieve better value by sponsoring a selection of existing commercial insurance plans. The insurance plans would pay market rates for health care procedures, rather than DoD's sub-Medicare rates, thereby resulting in much more robust provider networks. The plans would be contracted through OPM similar to the FEHBP program, which would reduce operating expenses and remove the program from the complex, drawn-out DoD contracting process that has been leveraged to erode TRICARE benefits because of budgetary considerations. Providing commercial insurance plans would give beneficiaries access to the medical industry's most recent innovations and procedures. Under this proposal, commercial insurance plans would make use of modern monetary and nonmonetary tools to control excessive utilization. Such tools ultimately would allow the system to operate more efficiently, which avoids passing increased program costs on to beneficiaries.

AC family members would continue to receive health care generally at no cost. Service members with dependents would receive a new Basic Allowance for Health Care (BAHC) to cover the premiums and OOP costs for an average health care plan. RC members who are mobilized would also receive this BAHC either to apply toward a DoD plan or to cover the employee share of their existing health care plans. This ability to remain on their existing health care plan would improve the continuity of care for RC family members. Non-Medicare-eligible retirees would continue to have access to the military health benefit program, at premiums below the civilian levels in recognition of their sacrifices for our Nation. Finally, TRICARE-for-Life would be maintained in its current form to provide high quality health care for Medicare-eligible retirees.

The Commission's survey indicates beneficiaries would strongly prefer this recommendation to the status quo. Although AC family members would have the option of choosing more (or less) expensive plans with different copayment levels, the BAHC would ensure that beneficiaries have an option with no substantive increase to their cost shares. The recommendation, more importantly, would increase attributes of the health care benefit that are highly valued by these beneficiaries. In a survey question on the choices of health care providers their family members were allowed to see, AC respondents overwhelmingly valued a broad range of civilian health care providers with some MTF care over the status quo of a select network of civilian providers with MTF care. Figure 18 provides the valuations for each option in the survey question. According to these results, the Commission's recommendation would increase AC members' valuation of their health benefit by about $2,200 per year from this one attribute alone.[483]

Figure 18. Active-Duty Service Members' Perceived Value: Provider Choice[484]

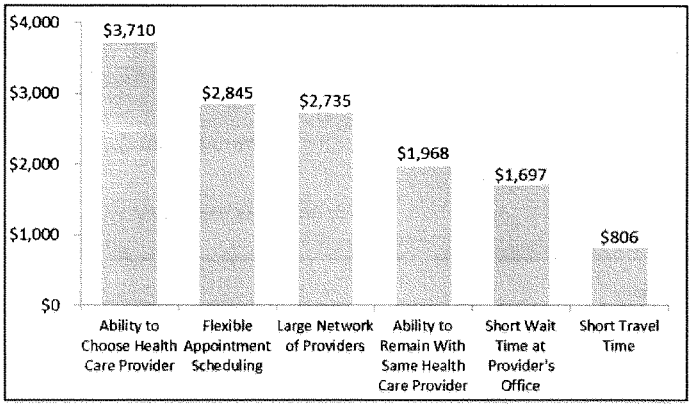


In a related survey question, AC respondents evaluated six aspects of their health care experience. In a similar result to the previous question, choice was the most highly valued attribute followed closely by flexibility in appointment scheduling and the size of the network. The Commission's recommendation could improve these attributes and gives beneficiaries direct control over their health benefit through the plans they choose. Figure 19 provides the complete break out of the valuations for the six attributes for active-duty survey respondents. The survey allows for a comparison of valuation of different compensation designs. Examining just health benefits, the

[483] Survey results, MCRMC survey, July 1, 2014 to October 10, 2014.
[484] Survey results, MCRMC survey, July 1, 2014 to October 10, 2014. This figure displays the average amount in dollars that survey respondents valued compensation alternatives. Presentation in dollar values allows the value of compensation features to be directly compared.

survey reveals that up to 90 percent of AC respondents would prefer the Commission's recommendation (for their family members) than the current benefit.[485]

Figure 19. Active-Duty Service Members' Perceived Value: Health Care Experience[486]



It is critical that this health care insurance plan be designed to support DoD's medical readiness mission. MTFs must be included in the insurance carriers' health care provider networks so that beneficiaries can continue to receive care at MTFs and MTFs can continue to receive the cases necessary to fulfill their training mission. Furthermore, copayments and other OOP costs should be lower at MTFs than in other medical facilities to provide beneficiaries financial incentives to seek care in MTFs. Finally, insurance program contracts should be established as evergreen agreements that are renewed annually, to allow regular adjustments of costs shares and to reflect the most current innovations in medical practice.

Recommendations:

- Active-duty Service members, for reasons related to operational readiness, should continue to receive their health care through their units or the direct care system (MTFs). As is the case today, some specialist care will be attained in the private sector. When active-duty Service members are referred to the private sector for care, they should have access to an unlimited network of providers at no cost to the Service member.

[485] Survey results, MCRMC survey, July 1, 2014 to October 10, 2014. The Commission survey allows for comparison of different compensation designs. If all six attributes identified in Figure 6 were increased substantially, then the survey results predict that 89.9 percent of AC members would prefer the Commission's recommendation over the current health benefit design. The survey does not allow for partial increases in the six attributes, though, and the degree to which these attributes are experience in the current health benefit varies by location and other factors. It may be the case that the increases in each attribute vary across beneficiaries, making the survey prediction of approximately 90 percent an upper-bound estimate.

[486] Survey results, MCRMC survey, July 1, 2014 to October 10, 2014. This figure displays the average amount in dollars that survey respondents valued compensation alternatives. Presentation in dollar values allows the value of compensation features to be directly compared.

- For AC families, RC members, retirees not eligible for Medicare, and their families, survivors, and certain former spouses, the Congress should establish a new health care program that offers beneficiaries a selection of commercial insurance plans to replace TRICARE. This new health benefit should:
  - Offer an array of health plan options that vary in type (e.g., preferred provider organizations and health maintenance organization), covered benefits, and price.
  - Offer a selection of plans that broadly represents what is available in the commercial market without unnecessary restrictions, meets or exceeds a baseline of health plan quality, and continuously advances with the health care industry.
  - Present several choices in any geographic region.
  - Include dental and vision coverage. The TRICARE Dental Program and the TRICARE Retiree Dental Program should remain in place. Additionally, the new health care program should contain some health plans that include partial dental coverage.[487] Beneficiaries also should have access to stand-alone vision plans under the new health care program, which they currently do not have under TRICARE.
  - Allow beneficiaries to continue to have access to MTFs as a venue of care. Insurance companies should include MTFs in their networks and reimburse MTFs for the care delivered as they do any other provider.
  - Allow beneficiaries to change plans during the annual open season or at a life-changing event such as a permanent change of duty station.
  - Ensure insurance plans include catastrophic caps to alleviate large, unplanned health bills.
- Active-duty Service members should receive BAHC, a nontaxable allowance, to offset health care cost shares for their family members.
  - BAHC should be based on the costs of average plans available in the family's location.
  - DoD should use BAHC to transfer directly to the insurance carrier the premium for the plan the family has selected. The remainder of the BAHC should be available for the family members to pay copayments, deductibles, and coinsurance. DoD should make available to active-duty families an account for the accumulation and future use of unused BAHC.
  - BAHC should be set at a level that sufficiently offsets or completely covers costs, or even affords families a surplus each month after costs are paid.

[487] Partial dental coverage refers to insurance coverage for accidental dental injuries and routine preventative and diagnostic services.

- Families should be able to use their BAHC to purchase health care through a spouse's employer if desired.

- When AC families struggle with a high-cost chronic condition or a catastrophic event or illness, there should be a DoD program available to assist them with medical expenses until they reach their health plan's catastrophic caps and are no longer required to pay OOP costs. Active-duty families should apply to this program for additional funding to cover copayments that substantially exceed their BAHC. An annual total of $50 million should be budgeted for this catastrophic and chronic condition assistance. (See Appendix D for more information about costing related to this program.)

Table 7 provides more detail on who would be eligible for BAHC, how it would be computed, what would be specified in law, and other details of its implementation. Figure 20 notionally displays how BAHC would be calculated. TRICARE Choice is the name used for the proposed program that would offer beneficiaries a selection of commercial health insurance plans.

Table 7. Frequently Asked Questions Regarding Basic Allowance for Health Care

Who would receive a BAHC?	BAHC would be provided to every Service member of the Uniformed Services in active-duty status who has at least one dependent recorded in Defense Enrollment Eligibility Reporting System (DEERS). Service members would receive BAHC for any dependents up to age 26.
How would DoD track and allocate the BAHC?	Service members or authorized spouses would have to certify in DEERS that they have purchased health care for their dependents. If they purchase a health plan through TRICARE Choice, it will automatically be recorded in DEERS. If they purchase a certified health care plan offered outside of TRICARE Choice, the Service member would be required to provide the information to DEERS. Payments from the Defense Finance and Accounting Services (DFAS) are aligned with DEERS information, therefore DEERS information must be accurate to enable the DFAS automatic payment function.
How would the insurance carriers receive the BAHC for payment of the health plan premium?	The portion of the BAHC used to pay the premium of the insurance plan selected by the Service member would appear as an allotment on the Service member's Leave and Earnings Statement. This portion of BAHC would be paid directly into the OPM trust fund for use by the insurance plan selected. If the Service member indicates a non-TRICARE Choice plan in DEERS, DFAS would make payment directly to that insurance carrier.
How would active-duty Service members receive the BAHC to pay for their family members' out-of-pocket health expenses?	The portion of the BAHC to be used for out-of-pocket costs (copayments, coinsurance, and deductibles) would be paid to active-duty Service members as a cash payment in their direct deposit. BAHC would be a nontaxable allowance.

How would BAHC be calculated?	The BAHC formula will be specified in law as 28% of the total premium of the health plan selected in a location in the prior year by the median active-duty family member unit plus the average copayment amount by all active-duty family member beneficiaries in that location in the prior year. The geographic unit (e.g., state versus metropolitan statistical area) will not be specified in law and will be at the discretion of the program. In the first year, when no prior year data are available, a projection of likely plan choices and utilization behavior for the population will be used to compute the values. The legislative language creating the BAHC will include the specific formula: BAHC=0.28*(Total Premium of Median Plan)+Copayment Amount

Figure 20. Illustrative Calculation of Basic Allowance for Health Care[488]

How BAHC is Computed (Annual Amount)

Total Current Year Premium of Median Plan Selected in Prior Year	$8,507
28% of Total Plan Premium Becomes BAHC Amount	$2,382
Average Copayment Amount Added to BAHC	$920
Total BAHC Amount (sum of premium and copayment amount)	$3,302

- All RC members should be able to purchase a plan from the DoD program at varying cost shares. Members of the Selected Reserve should have a reduced cost share of 25 percent to encourage RC health and dental readiness and streamline mobilization of RC personnel. Other RC members new to the benefit should have higher cost shares corresponding to their category of service. When mobilized, RC members should receive active-duty health care. Under this new benefit, RC members with families should receive the BAHC and either select a plan from DoD's program or remain on their current (civilian) plan and apply the BAHC to those costs.

- Medicare-eligible retirees should continue to receive health care to supplement Medicare benefits consistent with TRICARE for Life.

- The cost contribution for non-Medicare-eligible retirees should gradually increase over many years, but remain lower than the average civilian employee cost share as recognition of military members' service.

[488] Actual BAHC values would depend upon local market conditions, Service-member choices, and plans available.

- The TRICARE Young Adult program would no longer be necessary, as commercial health insurance plans that offer dependent coverage should make coverage available to dependents until age 26.

Tables 8 and 9 describe in more detail how the Commission's recommendation would affect each type of beneficiary and current DoD health care programs.

Table 8. Effects of the Commission's Health Benefit Recommendations by Beneficiary Category

Beneficiary Category	Impact
Active-duty Service members	No impact on benefit, costs, or where care is delivered. Active-duty Service members would continue to receive their health care through the direct care system (their units or MTFs). When referred to the private sector for specialist care, they would have access to an unlimited network of providers at no cost to the Service member. DoD would have the authority to contract with a third-party administrator to pay claims for care that active-duty Service members receive in the private sector.
Active-duty family members (ADFMs)	Currently use TRICARE Prime, Standard, Extra, etc. These plans would be eliminated and replaced with TRICARE Choice. Dependents up to age 26 would be covered under TRICARE Choice. A 28% premium cost share and higher out-of-pocket expenses would be charged to beneficiaries, but sponsors of ADFMs would be compensated for this increased cost share with the BAHC. They would continue to have access to the TRICARE Dental Program. Under TRICARE Choice, they also would have access to health plans with partial dental coverage.[489] Under TRICARE Choice, they would have access to vision coverage not available under TRICARE.
Members of the Selected Reserve on inactive-duty	Currently purchase TRICARE Reserve Select. TRS would be eliminated and replaced with TRICARE Choice. Premium cost share would reduce to 25% to improve RC medical and dental readiness. They would continue to have access to the TRICARE Dental Program. Under TRICARE Choice, they also would have access to health plans with partial dental coverage. Under TRICARE Choice, they would have access to vision coverage not available under TRICARE.
Members of the Selected Reserve called to active-duty for more than 30 consecutive days (including pre- and postmobilization transition, i.e., TAMP)	Service members would receive the same care as active-duty at no cost. Dependents currently receive TRICARE benefits, which would be eliminated and replaced with TRICARE Choice. Dependents would incur a 28% premium cost share and out-of-pocket expenses but their sponsors would be compensated for this with a BAHC. They would continue to have access to the TRICARE Dental Program. Under TRICARE Choice, they also would have access to health plans with partial dental coverage. Under TRICARE Choice, they would have access to vision coverage not available under TRICARE.

[489] Partial dental coverage refers to insurance coverage for accidental dental injuries and routine preventative and diagnostic services.

Beneficiary Category	Impact
Other Reserve Component (not currently eligible for TRICARE, TRS, or TRR)	No TRICARE benefits today. Would be eligible for TRICARE Choice with cost shares corresponding to their category of service, but higher than the 25% cost share afforded the inactive Selected Reserve. They would continue to have access to the TRICARE Dental Program. Under TRICARE Choice, they also would have access to health plans with partial dental coverage. Under TRICARE Choice, they would have access to vision coverage not available under TRICARE.
Non-Medicare-eligible retirees	Currently use TRICARE Prime, Standard, or Extra. These plans would be eliminated and replaced with TRICARE Choice. When fully implemented, non-Medicare-eligible retirees would pay a 20% premium cost share. The cost share would gradually increase at a rate of 1% per year for 15 years to adjust from the current 5% cost share to the ultimate 20% cost share. Non-Medicare-eligible beneficiaries would pay out-of-pocket expenses. They would not receive a BAHC. They would continue to have access to the TRICARE Retiree Dental Program. Under TRICARE Choice, they also would have access to health plans with partial dental coverage. Under TRICARE Choice, they would have access to vision coverage not available under TRICARE.
Medicare-eligible retirees	Currently use TRICARE for Life and would continue to do so.
Retired Reserve Component members (after retirement but under age 60)	Currently use TRICARE Retired Reserve (TRR). TRR would be eliminated and replaced with TRICARE Choice. Like today, the Government would not subsidize the cost. They would continue to have access to the TRICARE Retiree Dental Program. Under TRICARE Choice, they also would have access to health plans with partial dental coverage. Under TRICARE Choice, they would have access to vision coverage not available under TRICARE.
Dependent survivors, certain former spouses, Medal of Honor recipients and their families, and others registered in DEERS	Currently use TRICARE, which would be eliminated and replaced with TRICARE Choice. These beneficiaries would pay a premium cost share at a level consistent with their cost shares today. They would have access to the dental coverage they receive under TRICARE, as well as partial dental coverage available under some health plans in TRICARE Choice. Under TRICARE Choice, they would have access to vision coverage not available under TRICARE.
Other Uniformed Services and their dependents (Coast Guard, Public Health Service Commissioned Corps, and National Oceanic and Atmospheric Administration Commissioned Officer Corps)	Currently use TRICARE, which would be eliminated and replaced with TRICARE Choice. They would have access to the dental coverage they receive under TRICARE, as well as partial dental coverage available under some health plans in TRICARE Choice. Under TRICARE Choice, they would have access to vision coverage not available under TRICARE.

Table 9. Effects of the Commission's Health Benefit Recommendations by Current Program

Program	Impact
TRICARE Prime	Program would be eliminated and replaced by TRICARE Choice for ADFMs. For active-duty Service members, there would be no impact on benefits, costs, or where care is delivered. DoD would have the authority to contract with a third-party administrator to pay claims for care active-duty Service members receive in the private sector.
TRICARE Standard	Program would be eliminated and replaced by TRICARE Choice.
TRICARE Extra	Program would be eliminated and replaced by TRICARE Choice.
TRICARE for Life (TFL)	Benefit would remain in place and would not be directly affected by Commission recommendation. Care would still be provided and claims would still be paid first through Medicare in most cases. DoD would still contract with a third-party administrator to pay claims and coordinate claims processing with Medicare administrators and medical providers. There would be an indirect impact on the minimal cases in which TFL is primary payer because of the elimination of TRICARE Prime, Standard, and Extra programs and infrastructure. DoD must retain certain responsibilities related to the TFL program, including upholding and, as appropriate, seeking changes to policies on medical services allowable under the DoD Medicare wrap-around program. When Medicare does not cover services but TFL does, TFL beneficiaries would obtain care through an unlimited network of providers that the third-party administrator verifies are licensed by the state and credentialed within the specialty in which they are providing services. The providers would submit claims to the third-party administrator, which would handle claims processing. In overseas settings in which Medicare does not operate, TFL would remain the primary payer and DoD would retain the authority to contract with a third-party administrator to process the claims. TFL users would continue to have access to pharmacy benefits through DoD.
TRICARE Young Adult (TYA)	Program would be eliminated. Plans under TRICARE Choice would cover dependents up to age 26 even if these dependents are married, not living with their parents, attending school, not financially dependent on their parents, or eligible to enroll in their employer's plan.
TRICARE Reserve Select (TRS)	Program would be eliminated and replaced by TRICARE Choice. Premium cost share would be 25%.
TRICARE Retired Reserve (TRR)	Program would be eliminated and replaced by TRICARE Choice. Like today, the Government would not subsidize the cost.
Active-Duty Dental Program (ADDP)	Program remains in place and operates as it does today.
TRICARE Dental Program (TDP) for active-duty families	Program remains in place and operates as it does today. ADFMs would retain the same premium cost share they experience under TDP. Additionally, TRICARE Choice would contain some health plans with partial dental coverage.

Program	Impact
TRICARE Dental Program (TDP) for RC families	Program remains in place and operates as it does today. RC members would retain the same premium cost share they experience under TDP. Additionally, TRICARE Choice would contain some health plans with partial dental coverage.
TRICARE Retiree Dental Program (TRDP)	Program remains in place and operates as it does today. Retirees would retain the same premium cost share they experience under TRDP. Additionally, TRICARE Choice would contain some health plans with partial dental coverage.
TRICARE Pharmacy	The pharmacy benefit would remain in place. DoD would manage the pharmacy program and continue to use the DoD formulary and Federal Supply Schedule pricing. Beneficiaries using TRICARE Choice, as well as Medicare-eligible retirees using TFL, would obtain medications from retail, mail-order, and MTF settings. DoD would retain the authority to contract with a third-party administrator to perform functions such as managing the retail pharmacy network, distributing mail-order medications, and processing claims. Such contracts would require the pharmacy benefits manager to integrate pharmaceutical treatment with health care and to implement robust medication therapy management.
U.S. Family Health Plan (USFHP)	The USFHP program would continue but would no longer be associated with TRICARE Prime. USFHP designated providers could participate in TRICARE Choice by contracting with OPM to offer health plans to beneficiaries.
TRICARE Prime Remote	Program would be eliminated and replaced by TRICARE Choice for ADFMs. For active-duty Service members, there would be no effect on benefit, costs, or where care is delivered. DoD would have the authority to contract with a third-party administrator to pay claims for care active-duty Service members receive in the private sector.
TRICARE Prime Overseas	Program would be eliminated and replaced by TRICARE Choice for ADFMs. For active-duty Service members, there would be no effect on benefit, costs, or where care is delivered. DoD would have the authority to contract with a third-party administrator to pay claims for care active-duty Service members receive in the private sector.
TRICARE Prime Remote Overseas	Program would be eliminated and replaced by TRICARE Choice for ADFMs. For active-duty Service members, there would be no effect on benefit, costs, or where care is delivered. DoD would have the authority to contract with a third-party administrator to pay claims for care active-duty Service members receive in the private sector.
TRICARE Standard Overseas	Program would be eliminated and replaced by TRICARE Choice for ADFMs. For active-duty Service members, there would be no effect on benefit, costs, or where care is delivered. DoD would have the authority to contract with a third-party administrator to pay claims for care active-duty Service members receive in the private sector.

- To ensure affected Service members and beneficiaries can navigate the new insurance program with ease, DoD should institute a program of education and benefits counseling (see Recommendation 3).
- The proposed health care program should be administered by OPM in a way that incorporates the experience and knowledge of both the DoD and OPM to achieve the best health care benefit possible, with the greatest amount of flexibility and industry innovation, and in the most efficient manner available.

- DoD should develop and provide to OPM recommendations on the unique needs of the eligible Uniform Services beneficiary population. DoD should also make recommendations to OPM on matters involving MTFs, namely the inclusion of MTFs in carriers' networks, copayments levels at MTFs, and adjustments to procedure reimbursement rates for EMC-related care delivered in MTFs. Details of the benefit, as well as contract negotiations, should be the responsibility of OPM. DoD should not exclude from the program any benefits that OPM determines are commonly available in FEHBP. DoD should retain the budget authority for the health care provided to AC dependents, members of the RC, and non-Medicare-eligible retirees and transfer funds to OPM for insurance operations, as it does today for DoD civilian employees.

- The Congress should leverage OPM's experience in administering similar health care programs to manage the routine business operations of the program, such as the contracts with and distribution of funds to insurance carriers. This arrangement should include managing annual "evergreen" contracts, performing a strict evaluation of financial solvency of carriers, transmitting annual call letters to carriers, reviewing potential plans against DoD requirements, and managing the trust fund and its associated payments.

Table 10 provides more detail on the roles and responsibilities of OPM, DoD, insurance carriers, and beneficiaries under the Commission's recommendation.

Table 10. Roles and Responsibilities Under the Health Benefits Recommendation

OPM	DoD
▪ Contracting for and approving or disapproving carriers for participation in the health benefit program; ▪ Taking action to ensure the offering of plans broadly represents what is available in the commercial market without unnecessary restrictions and meets a baseline of health-plan quality ▪ Negotiating benefit and rate changes with carriers; ▪ Approving the certified text on benefits for the brochures; ▪ Publishing regulations, instructions, forms, and documents pertaining to the program; ▪ Receiving and depositing premium withholdings and contributions, remitting premiums to carriers, and accounting for the Employees Health Benefits Fund; ▪ Making final determinations of the applicability of the health benefit program law to specific employees or groups of employees; ▪ Auditing carriers' operations under the law; ▪ Performing a strict evaluation of carriers' financial solvency; ▪ Resolving disputed health insurance claims between the enrollee and the carrier.	▪ Providing recommendations to OPM on the unique needs of the eligible Uniformed Services beneficiary population, without excluding from the program any benefits OPM determines are commonly available in FEHBP; ▪ Providing recommendations to OPM on the inclusion of MTFs in carriers' networks and rate negotiation for copayments at MTFs and procedure reimbursement rates for EMC-related care delivered in MTFs; ▪ Retaining budget authority for the health benefit for active-duty dependents, members of the RC, and non-Medicare-eligible retirees and transferring funds to OPM for insurance operations, as it does today for DoD civilian employees; ▪ Remitting and accounting for withholdings and contributions; ▪ Administering and dispersing BAHC through Defense Finance and Accounting Services; ▪ Providing eligible persons with information on their rights and responsibilities under the health benefit program; ▪ Conducting a program of education and benefits

counseling to ensure affected Service members and beneficiaries can navigate the health benefit program;
- Establishing a DoD office responsible for interacting with eligible beneficiaries on the health benefit program, including counseling and advising employees; determining individual eligibility for enrollment, effective dates of health benefits actions, and other related matters; processing health benefits actions and ensuring that election forms are properly completed; reviewing enrollment reconsideration requests; stocking and distributing health benefits forms and literature; maintaining records; and managing the catastrophic- and chronic-condition assistance program.

Insurance Carriers	Beneficiaries
▪ Adjudicating claims of, and providing health benefits to, beneficiaries in accordance with its contract with OPM; ▪ Typesetting, printing, and distributing brochures; ▪ Furnishing each person enrolled in its health plan an identification card or other evidence of enrollment; ▪ Acting on enrollee requests for reconsideration of disputed claims; ▪ Maintaining financial and statistical records and reporting on the operation of its plan; ▪ Developing and maintaining effective communication and control techniques to ensure that its subcontractors and local offices comply with regulations and OPM instructions.	▪ Being aware of their plan's benefit package, premium charges, exclusions and limitations, precertification and preauthorization requirements, and provider networks (if applicable); ▪ Reviewing the benefit and rate changes made to their plan during open season and determining whether their plan will still meet their needs in the upcoming year; ▪ Filing the appropriate forms on a timely basis to enroll, change, or cancel enrollment; ▪ Filing claims on a timely basis with the necessary documentation (if necessary); ▪ Updating DEERS when their address changes or when a dependent is added to or removed from dependent status.

- All health care programs should be financed through trust funds.
  - To finance the new health care program for active-duty families, RC members and families, non-Medicare eligible retirees, and all other eligible beneficiaries, the Departments of Defense, Homeland Security, Commerce, and Health and Human Services should transfer funding to the Employee Health Benefits Fund managed by OPM. OPM should keep the funding for FEHBP and the new health care program segregated in the trust fund.
  - The Medicare-Eligible Retiree Health Care Fund (MERHCF) should be expanded to cover the health care and pharmacy programs for non-Medicare eligible retirees. The health care for non-Medicare eligible retirees should be accrual funded, similar to how Medicare-eligible retiree health care is today. A portion of the outlays from the MERHCF should be paid to the OPM Employee Health Benefits Fund to purchase insurance plans for non-Medicare eligible retirees.
  - To finance the existing pharmacy and dental programs for active-duty families and RC members and families and pharmacy, dental, and health

care for active-duty Service members, a new trust fund should be created and managed by DoD for health care expenditures appropriated in the current year.

- Catchment areas around MTFs, an element of TRICARE Prime today, should be rescinded, allowing MTFs to attract cases unrestricted by geographic vicinity.

Implementation:

- Title 10, U.S. Code, addresses matters concerning the Armed Forces. A new chapter should be added to Title 10 to create a new health care program for dependents of members of the Uniformed Services, members of the Uniformed Services in reserve status, and non-Medicare-eligible retirees. The new program should be similar in nature to the Federal Employees Health Benefits Program currently administered by OPM, found at Chapter 89, Title 5, U.S. Code. The new chapter should provide for authorities and requirements that are similar but not identical to those found in Chapter 89, Title 5, U.S. Code. The new chapter should authorize DoD to make recommendations regarding the requirements of the new health care program, while requiring OPM to be responsible for administering the program.

- Title 5, U.S. Code, should be amended to authorize and set forth requirements for OPM to administer the new health care program on behalf of DoD.

- Chapter 55, Title 10, U.S. Code, governs medical and dental care for Uniformed Services members and certain former members, and for their dependents. The laws providing for the benefits for active-duty Service members and Medicare-eligible retirees should remain substantially the same except for technical and conforming amendments necessitated by the other changes to Title 10 resulting from the new health care program.

- Chapter 55, Title 10, U.S. Code, governs the pharmacy and dental benefits for the Uniformed Services. The laws providing for pharmacy and dental benefits should remain substantially the same except for technical and conforming amendments necessitated by the changes to Title 10 resulting from the new health care program.

- Various titles of the U.S. Code address the issue of allowances for the Uniform Services. These titles should be amended to authorize receipt of BAHC as an allowance.

  - Relevant sections of Title 10 of the U.S. Code should be amended to authorize receipt of BAHC as an allowance.

  - Title 26, U.S. Code, contains the provisions of the Internal Revenue Code. Title 26 should be amended to allow BAHC to receive similar tax treatment as other non-taxable allowances received by members of the Uniformed Services, such as BAH and BAS.

  - Title 37, U.S. Code, governs pay and allowances of the Uniformed Services. Chapter 7, Title 37, U.S. Code, should be amended to authorize the receipt of BAHC as an allowance. 37 U.S.C. § 101(25) should be amended to include BAHC in the definition of "regular military compensation."

- Title 10, U.S. Code, should be amended to add a new section which establishes and governs a trust fund for monies appropriated for provision of pharmacy, dental, and health care for active-duty Service members, pharmacy and dental care for Reserve Component Service members, and pharmacy and dental care for the dependents of the Uniformed Services.

- Chapter 56, Title 10, U.S. Code, governs the DoD Medicare-Eligible Retiree Health Care Fund. Chapter 56 should be amended to expand coverage to include all retirees, not just Medicare-eligible retirees.

- Section 8909, Title 5, U.S. Code, governs the Employees Health Benefits Fund, which finances health insurance for Federal civilian employees. Section 8909 should be amended to include funding for the proposed health care program herein with the requirement that funding for the Federal Employees Health Benefits Program and the proposed health care program remain separate in the trust fund.

- Any other regulations (including the Code of Federal Regulations, if applicable), instructions, directives, or internal policies necessary to conform to the recommendation described above should be reissued, updated, amended, retracted, or otherwise changed as needed. Such as:

  - Replace instructions for TRICARE with instructions for the new health care program; and

  - Define roles and responsibilities of DoD and OPM in administering the new health care program.

RECOMMENDATION 7: IMPROVE SUPPORT FOR SERVICE MEMBERS' DEPENDENTS WITH SPECIAL NEEDS BY ALIGNING SERVICES OFFERED UNDER THE EXTENDED CARE HEALTH OPTION TO THOSE OF STATE MEDICAID WAIVER PROGRAMS.

Background:
The Exceptional Family Member Program (EFMP) provides support to Service members who have family members with special medical or educational needs.[490] Exceptional Family Members (EFMs) may be spouses, children, or dependent parents who require special medical or educational services for a diagnosed physical, intellectual, or emotional condition.[491] EFMP provides assignment coordination to ensure EFMs have access to needed medical and educational services.[492] When appropriate assignment coordination occurs, family members receive the care and support they require, and the Service member can focus more clearly on mission-related responsibilities. EFMs who meet specific eligibility criteria[493] can also register for TRICARE Extended Care Health Option (ECHO) program. This program provides financial assistance for services and supplies not available through TRICARE that are certified by TRICARE to confirm, arrest, or reduce the severity of the disabling effects of a qualifying condition.[494]

The ECHO program provides coverage for assistive services, durable medical equipment, and other services to support EFMs.[495] ECHO members may receive expanded in-home medical services through TRICARE ECHO Home Health Care (EHHC) or applied behavior analysis (ABA) reinforcement services under the DoD Enhanced Access to Autism Services Demonstration.[496] ECHO provides up to 16 hours of respite care during any month when at least one other ECHO benefit is received.[497] Respite care must be received from a TRICARE-authorized home health agency.[498] EHHC beneficiaries may receive respite care for up to 8 hours per day for 5 days per week for EFMs with a plan of care that requires more than two interventions during the 8-hour period per day that the primary caregiver would normally be sleeping.[499]

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[490] Military Family Readiness, DoDI 1342.22, Enclosure 3, 18-19 (2012).
[491] DoDI 1315.19 defines "family member" the same as "dependent." DoDI 1342.22 provides that "dependent" will be given the same definition as that found in 37 U.S.C. § 401(a), which defines "dependent" as a spouse, a dependent parent, or an unmarried child who is either under a given age or is incapable of self-support due to a mental or physical incapacity. DoDI 1315.19 provides criteria to be used in determining when a family member is a "family member with special needs." Criteria include certain diagnosed physical, intellectual, and emotional conditions.
[492] Military Family Readiness, DoDI 1342.22, Enclosure 3, 19 (2012).
[493] Conditions that qualify for ECHO coverage may include, but are not limited to, a diagnosis of moderate or severe mental retardation, serious physical disability, extraordinary physical or psychological condition of such complexity that the beneficiary is homebound, diagnosis of a neuromuscular developmental condition or other condition in an infant or toddler (younger than age 3) that is expected to precede a diagnosis of moderate or severe mental retardation or a serious physical disability, and multiple disabilities, which may qualify if there are two or more disabilities affecting separate body systems. National Defense, 32 CFR 199.5(b)(2). *See also* U.S. Department of Defense Military Health System, *Extended Care Health Option Fact Sheet*, accessed November 20, 2014, http://www.tricare.mil/~/media/Files/TRICARE/Publications/FactSheets/ECHO_FS.pdf.
[494] National Defense, 32 CFR 199.5(c). *See also* U.S. Department of Defense Military Health System, *Extended Care Health Option Fact Sheet*, accessed November 20, 2014, http://www.tricare.mil/~/media/Files/TRICARE/Publications/FactSheets/ECHO_FS.pdf.
[495] Ibid.
[496] Ibid.
[497] Ibid.
[498] Ibid.
[499] National Defense, 32 CFR 199.5(e). *See also* U.S. Department of Defense Military Health System, *Extended Care Health Option Fact Sheet*, accessed November 20, 2014, http://www.tricare.mil/~/media/Files/TRICARE/Publications/FactSheets/ECHO_FS.pdf.

As shown in Table 11, Service members with dependents registered in ECHO pay a monthly cost-share, based on their rank, for every month beneficiaries use ECHO benefits.[500] The current ECHO benefit cap is $36,000 per fiscal year per dependent.[501] EHHC is not included in this cap, but is capped at the maximum fiscal-year amount TRICARE would pay if the beneficiary resided in a skilled nursing facility based on the beneficiary's geographic location.[502] As of July 25, 2014, the ABA Autism Demonstration is no longer subject to this cap.[503]

Table 11. Monthly Cost-Shares for ECHO Participation[504]

Sponsor Pay Grade	Monthly Cost-Share	Sponsor Pay Grade	Monthly Cost-Share	Sponsor Pay Grade	Monthly Cost-Share
E1 to E5	$25	E9, W1, CWO2, O3	$45	O7	$100
E6	$30	W3, W4, O4	$50	O8	$150
E7, O1	$35	W5, O5	$65	O9	$200
E8, O2	$40	O6	$75	O10	$250

Service families are also eligible to apply to receive state Medicaid services for their EFM(s) in the state where they currently reside, including services available through state Medicaid waiver programs.[505] Waivers are used by states to develop new services and extend benefits to new populations beyond those typically provided by Medicaid.[506] Multiple types of waiver programs are available. The home- and community-based services (HCBS) waiver most closely aligns with the services active-duty family members with EFMs often express they need, including respite care, transportation support, and day-care for those with intellectual or developmental disabilities.[507] Unlike Medicaid, in which the family's income is considered as part of the eligibility process, income eligibility for HCBS waivers is based solely on the EFM's income,[508] allowing states to extend the Medicaid benefit to families that may not otherwise have access.[509] The purpose of the HCBS waiver is to meet the needs of individuals who choose to receive their long-term care services and support in their home or community, rather than in institutional settings.[510] ECHO participants are required to access these state and local services prior to accessing services under ECHO.[511] Table 12 summarizes the services offered under the HCBS waiver and ECHO programs.

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[500] National Defense, 32 CFR 199.5(f)(2)(i).
[501] National Defense, 32 CFR 199.5(f)(3)(i).
[502] Ibid.
[503] *See* Federal Register, A Notice by The Defense Department on 06/16/2014, *Comprehensive Autism Care Demonstration*, accessed October 24, 2014, https://www.federalregister.gov/articles/2014/06/16/2014-14023/comprehensive-autism-care-demonstration#table_of_contents.
[504] National Defense, 32 CFR 199.5(e). See also U.S. Department of Defense Military Health System, *Extended Care Health Option Fact Sheet*, accessed June 20, 2014, http://www.tricare.mil/Plans/SpecialPrograms/Echo.aspx.
[505] The Public Health and Welfare, 42 U.S.C. § 1396a(a)(10)(ii)(VI). The Public Health and Welfare, 42 U.S.C. § 1396n.
[506] West Virginia University, *Medicaid and Military Families with Children with Special Healthcare Needs: Accessing Medicaid and Waivered Services*, 16, accessed June 26, 2014, http://www.militaryonesource.mil/12038/MOS/EFMP/EFMP_MedicaidReport.pdf.
[507] Ibid.
[508] The Public Health and Welfare, 42 U.S.C. § 1396a(a)(10)(A)(ii)(VI). The Public Health and Welfare, 42 U.S.C. § 1396n.
[509] West Virginia University, *Medicaid and Military Families with Children with Special Healthcare Needs: Accessing Medicaid and Waivered Services*, 21-22, accessed June 26, 2014, http://www.militaryonesource.mil/12038/MOS/EFMP/EFMP_MedicaidReport.pdf.
[510] *See* The Public Health and Welfare, 42 U.S.C. § 1396n, originally enacted as § 1915(c) of the Social Security Act of 1935.
[511] Armed Forces, 10 U.S.C. §1079(f)(4).

Table 12. Statutory Guidelines for HCBS Waivers and ECHO

HCBS Waiver[512]	ECHO[513]
Adult Day Care: Daytime, community-based program for functionally impaired adults that provides a variety of health, nutrition, social, and related services in a protective setting to those who are otherwise being cared for by family members. Its purpose is to enable individuals to remain at home and in the community and to encourage family members to care for them by providing relief from the burden of constant care.	Training, rehabilitation, special education, and assistive technology devices.
Adult Day Habilitation Services: Day program usually serving individuals with mental retardation/developmental disabilities, teach skills such as cooking, recreation, and work skills. The individual may work part of the day with other individuals with disabilities in assembly and production work for piece rate wages or below minimum wages (Work Activities Center). In some sites, the recipient attends a center with peers learning nonvocational or prevocational skills.	Training, rehabilitation, special education, and assistive technology devices.
Adult Day Health Services: Adult day care setting that provides more health-related services.	Inpatient, outpatient, and comprehensive home health care supplies and services that may include cost effective and medically appropriate services other than part-time or intermittent services (within the meaning of such terms as used in the second sentence of section 1861(m) of the Social Security Act).
Assistive Technology: A range of equipment, machinery and devices that share the purpose of assisting or augmenting the capabilities of individuals with disabilities in almost every area of daily community life, including mobility, independence in activities of daily life, communication, employment learning and so forth. Specialized examples include wheelchairs and ramps, and electronic and printed picture/icon communication devices, but also can include tape recorders and tapes for messages, materials, instructions and so forth normally presented on paper, special large or punch switches available at a local electronics store, level door handles (as opposed to knobs) that are available at any hardware store, and telephones with single function keys for dialing certain numbers that are available at most department stores.	Training, rehabilitation, special education, and assistive technology devices.

[512] The Public Health and Welfare, 42 U.S.C. § 1396n, originally enacted as § 1915(c) of the Social Security Act of 1935. West Virginia University, *Medicaid and Military Families with Children with Special Healthcare Needs: Accessing Medicaid and Waivered Services*, 100-01, accessed June 26, 2014, http://www.militaryonesource.mil/12038/MOS/EFMP/EFMP_MedicaidReport.pdf.
[513] Armed Forces, 10 U.S.C. § 1079(f)(4). National Defense, 32 CFR 199.5.

HCBS Waiver[512]	ECHO[513]
Adaptive Equipment: Physical and/or mechanical modifications to the home, vehicle or the recipient's personal environment.	N/A, although the law states "such other services and supplies as determined appropriate by the Secretary, notwithstanding the limitations in subsection (a)(13)."
Case Management: Services that assist individuals' access to needed medical, social, educational, and other services.	...and case management services with respect to the qualifying condition of such a dependent...
Personal Care Attendant: Services such as help balancing a checkbook, grocery shopping, developing a budget, paying bills, etc.	Custodial care, notwithstanding the prohibition in section 1077 (b)(1) of this title.
Habilitation Services: Services designed to assist individuals in acquiring, retaining, and improving the self-help, socialization, and adaptive skills necessary to reside successfully in home and community based settings; and includes prevocational, educational, and supported employment.	Training, rehabilitation, special education, and assistive technology devices.
Homemaker Services: Assistance with general household activities and ongoing monitoring of the well-being of the individual.	Custodial care, notwithstanding the prohibition in section 1077 (b)(1) of this title.
Home Health Aide: Health care professional who assists with specific health problems.	Inpatient, outpatient, and comprehensive home health care supplies and services that may include cost effective and medically appropriate services other than part-time or intermittent services (within the meaning of such terms as used in the second sentence of section 1861(m) of the Social Security Act).
Nursing Care Services: Services provided by or under the direction of a registered nurse.	Inpatient, outpatient, and comprehensive home health care supplies and services that may include cost effective and medically appropriate services other than part-time or intermittent services (within the meaning of such terms as used in the second sentence of section 1861(m) of the Social Security Act).
Personal Care Services: Direct supervision and assistance in daily living skills and activities (e.g., assisting the individual with bathing and grooming).	Custodial care, notwithstanding the prohibition in section 1077 (b)(1) of this title.

HCBS Waiver[512]	ECHO[513]
Respite Care: Short-term supervision, assistance, and care provided due to the temporary absence or need for relief of recipient's primary caregivers. This may include overnight, in-home or out-of-home services. Training for the family in managing the individual. Day treatment or other partial hospitalization, psycho-social rehabilitation services and clinical services for people with a mental illness.	Respite care for the primary caregiver of the eligible dependent.
Vocational Services: Supported employment, prevocational education, and other services not covered by other sources.	Training, rehabilitation, special education, and assistive technology devices.

For additional information on ECHO and EFMP, please see the Report of the Military Compensation and Retirement Modernization Commission: Interim Report *(Section 4.1.13.4 and Section 5.1.10.8).*

Findings:
The list of HCBS waiver benefits authorized by the Social Security Act[514] and the list of ECHO benefits authorized through TRICARE[515] are very similar, although actual implementation of the two programs varies.[516] A DoD-commissioned study published in November 2013 by West Virginia University found that Service families with special needs use Medicaid as a resource to obtain specific supplementary services and coverage.[517] Examples include respite care, transportation, supplies like diapers for older children, durable medical equipment, and nutritional products such as formula that are either not provided or not fully covered by TRICARE.[518]

Respite care is one of the greatest needs among families that have children with intellectual and developmental disabilities, such as autism.[519] Home and community-based waiver programs are seen as a lifeline to supplement the limited respite care benefits provided by the military health system or by the respite care programs of the various Services.[520]

Access to HCBS waiver benefits is a substantial issue for military families with EFMs. Service members are required to re-apply for benefits each time they move to a new state.[521] Many Service members encounter waiting lists that exceed their time assigned to a location.[522] Table 13 provides waiver waiting list estimates indicating the number of people waiting for services in each of the top 10 states with the largest active-duty

[514] The Public Health and Welfare, 42 U.S.C. § 1396n.
[515] Armed Forces, 10 U.S.C. § 1079.
[516] Military Family Advisory Network (MFAN), briefing to MCRMC, February 28, 2014.
[517] West Virginia University, *Medicaid and Military Families with Children with Special Healthcare Needs: Accessing Medicaid and Waivered Services*, 4, accessed June 26, 2014, http://www.militaryonesource.mil/12038/MOS/EFMP/EFMP_MedicaidReport.pdf.
[518] Ibid.
[519] Ibid.
[520] Ibid.
[521] West Virginia University, *Medicaid and Military Families with Children with Special Healthcare Needs: Accessing Medicaid and Waivered Services*, 19, accessed June 26, 2014, http://www.militaryonesource.mil/12038/MOS/EFMP/EFMP_MedicaidReport.pdf.
[522] Ibid, 5.

military populations for FY 2012.[523] The average waiting period during this time across all HCBS enrollment groups and all states was 27 months and the average waiting period for the largest enrollment group (EFMs with intellectual or developmental disabilities, representing 303,909 of the total 523,710 individuals on HCBS waiver waiting lists) was 47 months.[524]

Table 13. HCBS Waiting Lists, FY 2012

State	Waiting List Estimate	State	Waiting List Estimate
California	2,117	Washington	1,281
Virginia	7,816	Florida	51,379
Texas	160,243	Hawaii	0
North Carolina	16,869	Kentucky	0
Georgia	11,242	South Carolina	6,004

As a result, there are reported cases in which military family members leave a child in one state to live with relatives while the Service member is assigned to a new installation in a different state.[525] This situation occurs when the child is receiving waivered services in the current state of residence and the same service is either not available or only available after a long waiting period in the state to which the Service member has been assigned.[526]

In FY 2013, 8,094 individuals participated in ECHO,[527] representing 6.3 percent of EFMP families.[528] Of these, 423 accessed ECHO only for primary services such as equipment, supplies, education, and training services.[529] The total cost of these primary services was $1.7 million.[530] The other 7,671 individuals also participated in either EHHC or ABA, at a cost of $152.6 million.[531]

Conclusions:
As evidenced by the similarity in benefits authorized under the HCBS and ECHO programs, as well as the directive to use state and local services before accessing ECHO, the Congress intended ECHO as an alternative to unavailable waiver benefits. Yet ECHO benefits, as currently implemented, are not robust enough to replace state waiver programs when those programs are inaccessible to Service members and their EFMs. With the exception of home health care services and ABA therapy services, the ECHO program is not highly utilized. This is due to a lack of needed services.

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[523] Kaiser Family Foundation, *Medicaid Home and Community-Based Services Programs: 2010 Data Update*, accessed November 10, 2014, http://kff.org/medicaid/report/medicaid-home-and-community-based-service-programs.
[524] Ibid.
[525] West Virginia University, *Medicaid and Military Families with Children with Special Healthcare Needs: Accessing Medicaid and Waivered Services*, 40, accessed June 26, 2014, http://www.militaryonesource.mil/12038/MOS/EFMP/EFMP_MedicaidReport.pdf.
[526] Ibid.
[527] Data provided by Office of the Under Secretary of Defense for Personnel and Readiness, e-mail to MCRMC, October 20, 2014.
[528] Data provided by Office of the Under Secretary of Defense for Personnel and Readiness, e-mail to MCRMC, October 20, 2014 and Department of Defense Annual Report to Congress on Plans for DoD for Support of Military Family Readiness, FY 2013, 45, received from Department of the Army, e-mail to MCRMC, May 22, 2014.
[529] Data provided by Office of the Under Secretary of Defense for Personnel and Readiness, e-mail to MCRMC, October 20, 2014.
[530] Ibid.
[531] Ibid.

Recommendations:

- Services covered through ECHO should be increased to more closely align with state Medicaid waiver programs, to include allowing for consumer-directed care.[532] Expanded services should be subject to the ECHO benefit cap of $36,000 per fiscal year, per dependent. Specific examples include, but are not limited to:
  - expanding respite care hours to align more closely with state offerings as well as allowing families to access those hours without receiving another ECHO benefit during the same month the respite care is received
  - providing custodial care
  - providing adult diapers where necessary and appropriate

Implementation:

- 10 U.S.C. § 1079 governs medical care for dependents of Uniformed Services members. No change to this governing statute is recommended.
- Any other regulations (including the Code of Federal Regulations, if applicable), instructions, directives, or internal policies necessary to conform to the recommendation described above should be reissued, updated, amended, retracted, or otherwise changed as needed. Such as:
  - 32 CFR 199.5(e) should be amended to align ECHO-provided services with those provided by state Medicaid waiver programs. As described above, these changes should include, but should not be limited to, expanding respite care hours to align more closely with state offerings, removing requirements that respite care is only available to households that receive another ECHO benefit, providing custodial care, and providing adult diapers when necessary and appropriate.

[532] *See* The Public Health and Welfare, 42 U.S.C. § 1396n(k)(3)(B).

RECOMMENDATION 8: IMPROVE COLLABORATION BETWEEN THE DEPARTMENTS OF DEFENSE AND VETERANS AFFAIRS BY ENFORCING COORDINATION ON ELECTRONIC MEDICAL RECORDS, A UNIFORM FORMULARY FOR TRANSITIONING SERVICE MEMBERS, COMMON SERVICES, AND REIMBURSEMENTS.

Background:
The Department of Defense (DoD) and the Department of Veterans Affairs (VA) operate two of the nation's largest health care systems, providing health care to approximately 16 million active-duty Service members, retirees, veterans, and their families each year.[533] To coordinate efforts and improve cost effectiveness between these systems, which together provide health care to Service members throughout their lives, the Congress established the DoD–VA Joint Executive Committee (JEC).[534] The JEC is cochaired by the Under Secretary of Defense (Personnel & Readiness) and the Deputy Secretary of Veterans Affairs,[535] who determine the Committee's size and structure, its administrative and procedural guidelines for the operation of the Committee, and staffing and resources.[536] Subcommittees include the Health Executive Committee (HEC), the Benefits Executive Committee (BEC), DoD–VA Interagency Program Office (IPO), Interagency Care Coordination Committee (IC3), and subordinate working groups.[537] The JEC's current charter (signed 14 October 2014) states it has responsibility to do the following:

- *oversee development and execution of VA/DoD Joint Strategic Plan (JSP)*
- *provide oversight to the JEC sub-committees (HEC, BEC, IPO, IC3) and their working groups*
- *identify opportunities to coordinate and share services and resources that would improve delivery of services for qualified beneficiaries*
- *submit an Annual Report to Secretaries and Congress on decisions made and actions taken by JEC, its subcommittees, and independent working groups*[538]

The JEC is working to coordinate numerous health care activities between DoD and VA. For example, its Acquisition and Medical Materiel Management Working Group identifies, reviews, and implements joint medical materiel sharing initiatives.[539] The Pharmacy Ad Hoc Working Group explores joint initiatives "with the goal of reducing redundancies, increasing efficiencies, and maximizing buying power."[540] The Psychological Health/Traumatic Brain Injury Working Group works to increase and sustain communication and collaboration between VA and DoD on related medical

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[533] Government Accountability Office, *Electronic Health Records, VA and DOD Need to Support Cost and Schedule Claims, Develop Interoperability Plans, and Improve Collaboration*, GAO-14-302 (2014), Highlights, accessed October 15, 2014, http://www.gao.gov/products/GAO-14-302.
[534] National Defense Authorization Act FY 2004, Pub. L. No. 108-136, § 583, 117 Stat. 1392, 1490 (2003) (codified at Veterans' Benefits, 38 U.S.C. § 320).
[535] Veterans' Benefits, 38 U.S.C. § 320, *JEC Membership*, accessed November 19, 2014, http://www.tricare.mil/DVPCO/downloads/JEC4-1.ppt.
[536] Veterans' Benefits, 38 U.S.C. § 320.
[537] Veterans' Benefits, 38 U.S.C. § 320, JEC organization chart obtained from DoD-VA Collaboration Office, October 16, 2014.
[538] DoD-VA Collaboration Office, new JEC charter, e-mail to MCRMC, October 16, 2014.
[539] Department of Veterans' Affairs, *VA/DoD Joint Executive Committee Annual Report Fiscal Year 2013*, 61, accessed November 19, 2014, http://www.va.gov/op3/docs/StrategicPlanning/VA_DoD_JEC_Annual_Report_for_FY_2013_signed_3.pdf.
[540] Ibid, 82.

conditions, including identification, evaluation, and provision of associated services.[541] DoD is a member of VA's Medical Advisory Panel (MAP) and VA is a member of DoD's Pharmacy and Therapeutics Committee (PTC). These groups determine their respective department's drug formulary.[542]

The JEC is responsible for coordinating efforts between DoD and VA with regard to electronic health records (EHR), drug formularies and deliveries, resource sharing, and interagency billing.[543] DoD's EHR relies on multiple legacy medical information systems, such as the Armed Forces Health Longitudinal Technology Application (for ambulatory clinical documentation), the Composite Health Care System (for pharmacy, radiology, and laboratory order management), and Essentris (for inpatient treatment).[544] The VA operates Veterans Health Information Systems and Technology Architecture (VistA), which was developed by VA clinicians and IT personnel and consists of more than 100 separate computer applications.[545] To improve information sharing between these systems, the departments have conducted numerous initiatives since 1998. These efforts to achieve interoperability included linking and sharing computable data between the departments' health data repositories, establishing and addressing interoperability objectives to meet specific data-sharing needs, developing a virtual lifetime electronic health record to track patients through active service and veteran status, and implementing information technology capabilities for the first joint federal health care center.[546] The Congress has mandated further interoperability on multiple occasions, including pharmacy data sharing in the National Defense Authorization Act (NDAA) for FY 2003[547] and full interoperability in the NDAA for FY 2008[548] and NDAA for FY 2014.[549]

The JEC is also responsible for developing strategies to ensure transitioning Service members have access to consistent medication. For example, its Pain Management Working Group is responsible for developing processes to make certain "eligible beneficiaries receive the highest standards of pain care, delivered seamlessly across both health care systems."[550] DoD's drug formulary is developed by its PTC.[551] The VA has a national formulary (VANF) as the only drug formulary authorized for use in the Veterans Health Administration (VHA).[552] The VANF is developed by VA's Pharmacy

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[541] Ibid, 14.
[542] U.S. Department of Defense Pharmacy & Therapeutics Committee Charter, 4, accessed January 8, 2015, http://pec.ha.osd.mil/P&T/PDF/Charter DoD P&T Committee May 2009 - signed.pdf. Department of Veterans Affairs, Veterans Health Administration, *VHA Handbook 1108.08 2009*, 1, accessed December 20, 2014, http://www.pbm.va.gov/directive/vhadirective.pdf.
[543] *See generally*: The Department of Veterans Affairs (VA) and the Department of Defense (DoD) Joint Executive Committee (JEC), *Joint Strategic Plan (JSP)*, accessed December 20, 2014, http://www1.va.gov/op3/docs/StrategicPlanning/VA_DoD_JEC_JSP_FY_2013_2015.pdf
[544] Government Accountability Office, *Electronic Health Records, VA and DOD Need to Support Cost and Schedule Claims, Develop Interoperability Plans, and Improve Collaboration*, GAO-14-302 (2014), 4, accessed October 15, 2014, http://www.gao.gov/products/GAO-14-302.
[545] Ibid, 3.
[546] Ibid, 6, 11.
[547] Bob Stump National Defense Authorization Act for FY 2003, Pub. L. No. 107-314, § 724, 116 Stat. 2458, 2598 (2002).
[548] National Defense Authorization Act for FY 2008, Pub. L. No. 110-181, § 1635, 122 Stat. 3, 460 (2008).
[549] National Defense Authorization Act for FY 2014, Pub. L. No. 113-66, § 713, 127 Stat. 672, 794 (2013).
[550] VA/DoD Joint Executive Committee, *Annual Report Fiscal Year 2013*, 40, accessed December 20, 2014, http://www.va.gov/op3/docs/StrategicPlanning/VA_DoD_JEC_Annual_Report_for_FY_2013_signed_3.pdf.
[551] Armed Forces, 10 U.S.C. § 1074g, National Defense, 32 CFR 199.21(c). DoD Pharmacy and Therapeutics Committee Charter, 1, accessed January 13, 2015, http://pec.ha.osd.mil/PT_min_charter.php?submenuheader=5.
[552] U.S. Department of Veterans Affairs, Veterans Health Administration, *VHA Handbook 1108.08: Formulary Management Process (February 26, 2009)*, 3, accessed June 20, 2014, http://www.pbm.va.gov/directive/vhadirective.pdf.

Benefits Management office,[553] which works with the VA MAP and Veterans Integrated Service Network (VISN) formulary leaders.[554] VISNs are prohibited from maintaining local drug formularies at individual medical care facilities.[555] To facilitate patient care, VA maintains a process to request nonformulary drugs determined to be clinically necessary.[556] Requests are subject to a list of pharmaceutical products for which substitution is not permitted,[557] and denied requests can be appealed by the requesting physician.[558] As mentioned above, DoD and VA have representatives on the MAP and PTC, respectively.[559]

The JEC also identifies opportunities for resource sharing agreements (RSA), which improve joint coordination and cost-effectiveness between the departments.[560] There are currently approximately 200 RSAs in place[561] covering clinical and nonclinical services such as inpatient services, radiology, and laundry services.[562] Larger strategic alliances between the departments, with commitments of 5 years or more, include 10 department-initiated DoD and VA joint ventures and the Congressionally mandated DoD–VA Medical Facility Demonstration Project Federal Health Care Center (FHCC) in North Chicago.[563] These joint ventures, which generally involve joint capital planning and shared risk,[564] include facilities in Charleston, South Carolina;[565] Las Vegas, Nevada;[566] and El Paso, Texas. [567] To provide financial encouragement for increased resource sharing, the Congress established the Joint Incentive Fund (JIF) in 2002. The JIF is a DoD and VA program that identifies, incentivizes, implements, funds, and

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[553] Ibid, 2.
[554] Ibid, 2.
[555] Ibid, 3.
[556] Ibid,6.
[557] Ibid,14.
[558] Ibid, 8.
[559] Armed Forces, 10 U.S.C. § 1074g, National Defense, 32 CFR 199.21(c), DoD Pharmacy and Therapeutics Committee Charter, accessed January 13, 2015, http://pec.ha.osd.mil/PT_min_charter.php?submenuheader=5.
[560] Veterans' Benefits, 38 U.S.C. § 320. Veterans' Benefits, 38 U.S.C. § 8111. Armed Forces, 10 U.S.C. § 1104. DODI 6010.23, *DOD and Department of Veterans Affairs (VA) Health Care Resource Sharing Program* (October 3, 2013).
[561] DoD/VA Coordination Office, Defense Health Agency, e-mail to MCRMC, October 9, 2014.
[562] Department of Veterans Affairs, Veterans Health Administration, *VHA Handbook 1660.04*, para 6.b., http://www.va.gov/vhapublications/ViewPublication.asp?pub_ID=1776. Gulf Coast Veterans Health Care System, briefing to MCRMC, May 21, 2014.
[563] *Memorandum of Understanding Between the Department of Veterans Affairs and the Department of Defense Health Care Resources Sharing Guidelines*, 3, accessed December 20, 2014, http://www.tricare.mil/dvpco/downloads/MOU.pdf. National Defense Authorization Act for FY 2010, Pub. L. No. 111-84, tit. XVII, 123 Stat. 2190, 2567. DoD/VA Coordination Office, Defense Health Agency, e-mail to MCRMC, October 19, 2014. DoD/VA Coordination Office, Defense Health Agency, email to MCRMC, October 9, 2014. VA/DOD Joint Executive Committee, *Annual Report Fiscal Year 2013*, 64, accessed December 17, 2013, http://www.va.gov/op3/docs/StrategicPlanning/VA_DoD_JEC_Annual_Report_for_FY_2013_signed_3.pdf.
[564] *Memorandum of Understanding Between the Department of Veterans Affairs and the Department of Defense Health Care Resources Sharing Guidelines*, para. IV(D)(2), (31 Oct 2008), http://www.tricare.mil/dvpco/downloads/MOU.pdf. NDAA for FY 2010, Pub. L. No. 111-84, tit. XVII, 123 Stat. 2190, 2567. DoD/VA Coordination Office, Defense Health Agency, email to MCRMC, October 9, 2014. VA/DOD Joint Executive Committee, *Annual Report Fiscal Year 2013*, 64, accessed December 17, 2013, http://www.va.gov/op3/docs/StrategicPlanning/VA_DoD_JEC_Annual_Report_for_FY_2013_signed_3.pdf.
[565] Naval Health Clinic Charleston, Ralph H. Johnson VA Medical Center, 628th Medical Group-Joint Base Charleston and Naval Hospital Beaufort, accessed October 16, 2014 http://www.charleston.va.gov/features/VA_DoD_Joint_Venture_Wins_Federal_Executive_Award.asp.
[566] "Mike O'Callahan Federal Medical Center," 99th Medical Group-Nellis AFB and VA Southern Nevada Healthcare System, accessed October 16, 2014, http://www.lasvegas.va.gov/locations/Mike_O_Callahan_Federal_Medical_Center.asp.
[567] "History," William Beaumont Army Medical Center- Fort Bliss and El Paso VA Health Care System, accessed October 16, 2014, http://www.elpaso.va.gov/about/history.asp.VA/DoD Joint Executive Committee, *Annual Report Fiscal Year 2013*, 64, accessed Jan. 9, 2015, http://www.va.gov/op3/docs/strategicPlanning/VA_DOD_JEC_Annual_Report_for_FY_2013_signed_3.pdf/

evaluates creative coordinating and sharing initiatives at the facility, intraregional, and national levels.[568]

General RSA guidelines are outlined in DoD Instruction (DoDI) 6010.23: *DoD and Department of Veterans Affairs (VA) Health Care Resource Sharing Program* and Veterans Health Administration Handbook 1660.04: *VA–DoD Direct Sharing Agreements*.[569] DoDI 0010.23 states, "the HEC shall oversee the DoD–VA Health Care Resource Sharing Program activities of each agency"[570] and "the heads of [military] medical facilities [will] participate in regular meetings with VA counterparts to monitor emerging opportunities...for resource sharing."[571] Similarly, the VA Handbook states, "VA medical facilities and VISNs [have] the flexibility to negotiate sharing agreements"[572] and "VA TRICARE Regional Office Liaisons responsibilities include...identifying new areas for economies of scale."[573] These documents further indicate each component engaged in interaction will designate points of contact and establish DoD–VA sharing program offices within respective departments, to be overseen by the HEC.[574] DoDI 6010.23 also mandates the annual military treatment facility (MTF) and regional business planning process must include assessment of opportunities for resource sharing with the VA.[575] Given this general guidance, along with DoD and VA's interpretation of 38 U.S.C. § 8111 "as intending resource sharing to be largely a grassroots endeavor,"[576] most RSAs are negotiated and implemented within local markets by local commanders.[577] Sharing is accomplished when it is mutually beneficial [financially] for both organizations.[578]

To further facilitate RSAs, the statute stipulates, "the [DoD and VA] Secretaries shall jointly develop and implement guidelines for a standardized, uniform payment and reimbursement schedule for [health care] services."[579] The HEC developed a health care resource sharing reimbursement methodology.[580] The Financial Management Work Group (FMWG), under the HEC, developed a discounted national rate structure.[581] The methodology basically applies "CHAMPUS Maximum Allowable Charge (CMAC) rates less 10 percent...as the reimbursement methodology for health care reimbursement between medical facilities, for institutional and professional

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[568] 38 U.S.C. § 8111 (d).
[569] Resource sharing is also outlined in Veterans' Benefits, 38 U.S.C. § 8111, *Sharing of Department of Veterans Affairs and Department of Defense health care resources* and Armed Forces, 10 U.S.C. § 1104, *Sharing of health-care resources with the Department of Veterans Affairs*.
[570] DoDI 6010.23, Jan 23 2014, Enclosure 3, para 1.a.(3)
http://www.dtic.mil/whs/directives/corres/pdf/601023p.pdf
[571] Ibid, enclosure 2, para 3.d.(3)
[572] Department of Veterans Affairs and Veterans Health Administration, *VHA Handbook 1660.04* para 5.a. and b http://www.va.gov/vhapublications/ViewPublication.asp?pub_ID=1776.
[573] Ibid. para 5.c.(2)
[574] DoDI 6010.23, January 23, 2012, para 2 and 3b http://www.dtic.mil/whs/directives/corres/pdf/601023p.pdf. Department of Veterans Affairs and Veterans Health Administration, *VHA Handbook 1660.04* para 5.a. and b http://www.va.gov/vhapublications/ViewPublication.asp?pub_ID=1776.
[575] DoDI 6010.23, January 23, 2012, Enclosure 3, 3.a. http://www.dtic.mil/whs/directives/corres/pdf/601023p.pdf
[576] Government Accountability Office, *VA And DoD Health Care: Department-Level Actions Needed to Assess Collaboration Performance, Address Barriers, and Identify Opportunities*, GAO 12-992, 44 and 48, accessed December 20, 2014, http://www.gao.gov/assets/650/648961.pdf.
[577] 38 U.S.C. § 8111 € (3) (A). DoDI 6010.23 (January 23, 2012), Enclosure 2, 3d(4).
[578] 38 U.S.C. § 8111 and DoDI 6010.23, January 23, 2012, Enclosure 3, para 3.b.(1).
[579] 38 U.S.C. § 8111 papa € (2).
[580] Veterans Affairs/Department of Defense Healtb Executive Council, *Memorandum of Agreement Health Care Resource Sharing Reimbursement Methodology*, 1, accessed October 14, 2014, http://tricare.mil/DVPCO/downloads/MOA/MOA-ReimbursementMethodology.pdf. This methodology does not apply to TRICARE Managed Support Contractors.
[581] Ibid.

charges."[582] The FMWG also developed billing guidance for inpatient[583] and outpatient services.[584] These standard rates can be regionally adjusted to account for local variations.[585]

Findings:
The Commission found numerous, ongoing weaknesses exist in joint collaboration and cost-effectiveness between the health care services of DoD and VA. For example, although DoD and VA have identified many common health care business needs and shared interests related to ensuring quality health care for Service members, veterans, and their families, the departments continue to spend large sums of money on separate EHR systems and capabilities to achieve interoperability between the systems.[586] The EHRs and data interoperability applications to date have yet to achieve seamless electronic sharing of health data between the departments, to the detriment of Service members, veterans, retirees, and taxpayers. The NDAA for FY 2008 required DoD and VA to jointly develop and implement an EHR system or capabilities that allow for full interoperability between the two agencies to accelerate the exchange of health care information and support health care delivery.[587] It also directed the departments to establish the DoD–VA Interagency Program Office (IPO) to be a single point of accountability for their efforts to implement these systems or capabilities by the September 30, 2009 deadline.[588] The departments indicated they met the interoperability objectives required at that time, and they continued to plan additional initiatives to increase the interoperable capabilities, stating that clinicians' needs for interoperable EHRs are not static.[589] In 2011, to avoid continued challenges in trying to achieve interoperability between two separate systems, the departments committed to developing and fielding a joint, integrated EHR (iEHR) by 2017.[590] The departments also rechartered the IPO with increased authority and expanded responsibilities for leading the iEHR effort.[591] In 2013, however, DoD and VA abandoned this plan, citing challenges meeting deadlines, expense, and excessive time to deliver capabilities as reasons for doing so.[592]

Although data-sharing initiatives have increased the amount of information shared in various capacities overall, a number of them have faced persistent challenges, including project planning and management weakness, inadequate accountability, and poor oversight, limiting the departments' ability to achieve full interoperability.[593] The departments announced in early 2013 they would pursue separate paths to modernize

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[582] Ibid, para 3.A.
[583] Veterans Affairs/Department of Defense Health Executive Council, *Department of Veterans Affairs (VA)-Department of Defense (DoD) Health Care Resource Sharing Rates-Billing Guidance Inpatient Services*, accessed October 14, 2014, http://tricare.mil/DVPCO/downloads/BillingGuidance-signed.pdf.
[584] Veterans Affairs/Department of Defense Health Executive Council, *VA-DoD Health Care Resource Sharing Rates-Billing Guidance Outpatient Services*, accessed October 14, 2014, http://tricare.mil/DVPCO/downloads/MOA/MOA-BillingGuidanceOutpatientServices.pdf.
[585] Veterans Affairs/Department of Defense Health Executive Council, *Memorandum of Agreement Health Care Resource Sharing Reimbursement Methodology*, 1, accessed October 14, 2014, http://tricare.mil/DVPCO/downloads/MOA/MOA-ReimbursementMethodology.pdf.
[586] Defense Healthcare Management Systems, Program Executive Office, e-mail to MCRMC, October 27, 2014.
[587] National Defense Authorization Act for FY 2008, Pub. L. No. 110-181, § 1635(d), 122 Stat. 3, 461 (2008)
[588] Ibid.
[589] Government Accountability Office, *Electronic Health Records, VA and DOD Need to Support Cost and Schedule Claims, Develop Interoperability Plans, and Improve Collaboration*, GAO-14-302 (2014), 9, accessed October 15, 2014, http://www.gao.gov/products/GAO-14-302.
[590] Ibid, 15.
[591] Ibid, 15-16.
[592] Ibid, 17.
[593] Ibid, 9.

their EHRs and ensure interoperability between the two systems rather than develop a single system.[594] VA announced VistA Evolution as the upgrade to the existing VistA, with initial operating capabilities (IOC) and full operating capabilities (FOC) expected by FY 2014 and 2017, respectively.[595] DoD decided to pursue a competitive acquisition of a completely new commercial EHR system, releasing a request for proposals in August 2014.[596] DoD's new comprehensive EHR is intended to replace current legacy systems, including outpatient, inpatient, and operational level capabilities.[597] IOC and FOC for the new system are planned for FY 2017 and FY 2022, respectively.[598]

Given the history of challenges in achieving interoperability, whether current interoperability efforts will be successful or cost-effective is questionable. When the departments decided to pursue separate EHR systems, they rechartered the IPO as the entity responsible for establishing, monitoring, and approving the clinical and technical standards profile and processes to ensure seamless integration of health data between the two departments and private health care providers.[599] Additionally, the IPO is to work with the Office of the National Coordinator for Health Information Technology of the Department of Health and Human Services to ensure the new EHRs comply with national data standards and architectural requirements.[600] When the departments abandoned the iEHR, they asserted their new, multiple-system approach would be less expensive and more expedient.[601] These assertions are questionable because the departments have not developed collective, comprehensive, comparative cost and schedule estimates to substantiate this claim or justify their decision to implement separate systems.[602]

The departments are, however, continuing to make progress with sharing data and increasing interoperability efforts as outlined in their briefs to the Congress, as directed per the NDAA for FY 2014.[603] In a January 27, 2014 presentation on their EHR plans, the DOD and VA EHR Program Plans brief outlined the program objectives, organization, responsibilities of the departments, technical objectives, including design principles and milestones, data standards being adopted by the programs, outcome-based metrics proposed to measure the performance and effectiveness of the programs, and the level of funding for fiscal years 2014 through 2017.[604] VistA Evolution funding, however, only reflected the FY 2014 Budget

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[594] Ibid, 17.
[595] Ibid, 21.
[596] Secretary of Defense Memorandum, *Integrated Electronic Health Records* (May 21, 2013), Defense Healthcare Management Systems, Program Executive Office, e-mail to MCRMC, October 27, 2014. Defense Healthcare Management Systems, Program Executive Office, e-mail to MCRMC, November 13, 2014..
[597] Defense Healthcare Management Systems, Program Executive Office, e-mail to MCRMC, September 30, 2014.
[598] Defense Healthcare Management Systems, Program Executive Office, e-mail to MCRMC, April 30, 2014, Defense Healthcare Management Systems, Program Executive Office, e-mail to MCRMC, October 27, 2014..
[599] Defense Healthcare Management Systems, Program Executive Office, e-mail to MCRMC, October 27, 2014. DoD/VA Interagency Program Office Charter, December 2013. See also Government Accountability Office, *Electronic Health Records, VA and DOD Need to Support Cost and Schedule Claims, Develop Interoperability Plans, and Improve Collaboration*, GAO-14-302 (2014), 25, accessed October 15, 2014, http://www.gao.gov/products/GAO-14-302.
[600] National Defense Authorization Act for FY 2014, Pub. L. No. 113-66, § 713, 127 Stat. 672, 794 (2013).
[601] Government Accountability Office, *Electronic Health Records, VA and DOD Need to Support Cost and Schedule Claims, Develop Interoperability Plans, and Improve Collaboration*, GAO-14-302 (2014), 19, accessed October 15, 2014, http://www.gao.gov/products/GAO-14-302.
[602] Ibid, 33.
[603] Defense Healthcare Management Systems, Program Executive Office, e-mail to MCRMC, October 27, 2014. Department of Defense, Department of Veterans Affairs, *U.S. DoD/DVA Data Sharing Progress Quarterly Report, 3rd QTR, FY 2014.*
[604] Ibid.

requirements.[605] The departments have been working together to move forward from read-only data shared through the Federal Health Information Exchange and Bi-Directional Health Information Exchange applications to enhance interoperability that provides data that is more integrated into clinical workflow.[606] These efforts include mapping data domains to existing national data standards and integrating them into the Joint Legacy Viewer, thereby improving clinicians' ability to examine DoD or VA patient records.[607]

Record sharing is vital to transitioning Service members who are leaving the DoD system with complex medical issues and ongoing health care needs. The Commission heard from several beneficiaries about the difficulties that poor records sharing can cause during the transition from the DoD to the VA system. One survey respondent wrote, "The [DoD] medical software should be linked with the VA clinics, so when people get out, their records can be transferred into the VA system automatically."[608] One person wrote in a letter to the Commission, "Hold DoD to [a] system of medical records compatible with [the] VA system.... [There are] too many excuses and wasted funds to date."[609]

Another critical example of insufficient coordination between the departments is when drug formularies for transitioning Service members continue to differ between the DoD and VA. Currently, several key drugs appear on the DoD formulary that do not appear on the VA formulary.[610] For example, the VA formulary does not contain two pain medications (celecoxib and acetaminophen with codeine) and two psychiatric medications (escitalopram oxalate and duloxetine HCL) that are among DoD's top-10 prescribed drugs in these classes.[611] Similarly, the Government Accountability Office (GAO) conducted a study of all psychiatric and pain medications on DoD's and VA's formularies and found that 43 percent of the medications on DoD's formulary were not on VA's formulary.[612]

GAO found inconsistencies in the nonformulary request process and identified a lack of metrics for the adjudication of the requests.

> *"VISNs and medical centers are responsible for implementing the nonformulary drug request process, and there is variation in the approaches that VISNs and medical centers take. For example, some VISNs and medical centers have more automated approaches to adjudicating nonformulary drug requests and collecting and reporting required data than others. In response to recommendations we made in*

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[605] Ibid.
[606] Ibid.
[607] Defense Healthcare Management Systems, Program Executive Office, e-mail to MCRMC, October 27, 2014.
[608] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[609] MCRMC letter writer, comment form submitted via MCRMC web site, October 18, 2013.
[610] Based on comparison of the following: Department of Veterans Affairs, Veterans Affairs National Formulary (February 2014), http://www.pbm.va.gov/nationalformulary.asp. Department of Veterans Affairs, Veterans Health Administration, pharmacy data provided by email from VHA (April 16, 2014). U.S. Department of Defense, Defense Health Agency, *Basic Core Formulary*, http://pec.ha.osd.mil/bcf.php?submenuheader=1, U.S. Department of Defense, Defense Health Agency, *Extended Core Formulary*, http://pec.ha.osd.mil/ecf.php?submenuheader=1, U.S. Department of Defense, Defense Health Agency, *DOD Nonformulary Drugs*, http://pec.ha.osd.mil/nonform.php?submenuheader=1, Defense Health Agency, DOD Pharmacy Data for FY 2013 provided by email to MCRMC, May 1, 2014.
[611] Ibid.
[612] *See generally* Government Accountability Office, *VA and DOD Health Care: Medication Needs During Transitions May Not Be Managed For All Servicemembers*, GAO 13-26 November 2012, accessed December 20, 2014, http://www.gao.gov/products/GAO-13-26.

> *our 2001 report, VA established a requirement for routine nonformulary drug requests to be adjudicated within 96 hours. However, some adjudications continue to surpass this threshold, and data reported to monitor timeliness are not always accurate or complete for all VISNs and their medical centers. Additionally, reported data are only required to include average adjudication times for nonformulary drug requests, which do not capture the total number of adjudications that fall outside VA's 96-hour standard. Finally, VA does not require that appeals of denied nonformulary drug requests are resolved within a certain time frame or that the outcomes of appeals are tracked. Given these limitations, additional steps are needed to ensure that veterans receive clinically necessary nonformulary drugs in a timely manner."* [613]

The unavailability of these drugs for transitioning Service members causes unnecessary hardship because finding the ideal medication and dose takes time, and abrupt changes for these medications are not medically advisable.[614] Because of the potential adverse health effects that could arise if medication is not taken as intended, medication management is critical to effective continuity of care for Service members transitioning out of the military.[615] As early as 2002, GAO found there was an increased risk for patient medication errors because DoD and VA have separate and uncoordinated information and formulary systems.[616] GAO recommended the departments improve their capabilities for sharing electronic information.[617] In 2003, GAO reported DoD and VA providers and pharmacists were still unable to electronically access health information to aid in making medication decisions for veterans, such as verifying drug allergies and interactions.[618] A decade later, in 2013, GAO again found DoD and VA efforts to manage transitioning Service members' medications somewhat limited because not all DoD MTFs offered assistance to facilitate transition of care.[619] GAO recommended DoD and VA identify and apply best practices for managing Service members' medication needs during transitions of care.[620] Although both agencies agreed with GAO recommendations, neither DoD nor VA identified actions to address the GAO recommendations.[621]

Additional collaboration between DoD and VA in drug purchasing could reduce costs for both departments. In addition to having access to discount-priced drugs through the Federal Supply Schedule and federal price ceilings, DoD and VA can jointly

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[613] Government Accountability Office, *VA Drug Formulary: Drug Review Process Is Standardized at the National Level, but Actions Are Needed to Ensure Timely Adjudication of Nonformulary Drug Requests*, GAO 10-776, 29, accessed January 9, 2014, http://www.gao.gov/new.items/d10776.pdf

[614] Government Accountability Office, *DOD and VA Health Care Medication Needs During Transitions May Not Be Managed for All Service Members. GAO-13-26, November 2012*, 2, accessed December 22, 2014, http://www.gao.gov/products/GAO-13-26.

[615] Ibid, Title Page.

[616] Government Accountability Office, *VA and Defense Health Care: Increased Risk of Medication Errors for Shared Patients, GAO-02-1017, September, 2002*, 3, accessed December 22, 2014, http://www.gao.gov/products/GAO-02-1017.

[617] Ibid , 4.

[618] *Major Management Challenges and Program Risks- Department of Veterans Affairs, GAO-03-110, January 2003, 32*, accessed December 22, 2014, http://www.gao.gov/products/GAO-03-110.

[619] Government Accountability Office, *DOD and VA Health Care: Medication Needs During Transitions May Not Be Managed for All Servicemembers, GAO-13-26. November 2012*, 14, access December 22, 2014, http://www.gao.gov/products/GAO-13-26.

[620] Ibid, 28.

[621] Government Accountability Office, *Veterans Affairs-Better Understanding Needed to Enhance Services to Veterans Readjusting to Civilian Life, GAO-14-676, September 2014*, 27, accessed December 22, 2014, http://www.gao.gov/products/GAO-14-676.

negotiate national contracts and other agreements, for example prime vendor contracts, which reduce procurement prices even more.[622] In fact, the HEC Acquisition and Medical Materiel Management Working Group reported that DoD and VA reduced costs $468 million from 2012 to 2013 by using acquisition programs based on the use of joint requirements.[623] The DoD and VA pharmacy team identified 28 commonly used pharmaceutical products and manufacturers for potential joint contracting action.[624] It is evident that additional collaboration between DoD and VA in drug purchasing could further reduce costs for both departments.

Regarding RSAs, DoD and VA currently have nonstandardized policies and individualized pricing structures that discourage interaction and make both departments' operations less cost-effective. As reported in September 2012 by GAO, "VA and DOD do not have a fully developed process and a sufficient strategic direction to work across agency boundaries to fully identify collaboration opportunities. Specifically, the departments have not fully developed and formalized a systematic process to review all possibilities for new and expanded collaboration, but instead largely leave the identification of new or enhanced collaboration opportunities to leaders at local VA and DOD medical facilities."[625] During the Commission's public hearings and site visits, those who testified, raised concerns repeatedly that most successful sharing agreements are personality driven, rather than policy directed. For example, during a site visit to Nellis Air Force Base, the Commander, 99th Medical Group, said DoD and VA need to "codify [the successes of agreements] in a deliberate manner at a high level versus relying on personality-driven relationships [between organizations]."[626]

Nonstandard policies have resulted in inconsistent implementation of RSAs, as well as numerous instances of inefficiencies or lost opportunities for collaboration. For example, the GAO highlighted the "incompatible policies and practices" for collaborative efforts between the DoD and VA in business and administrative processes such as credentialing of medical personnel, capturing patient workload, and inpatient access to military bases.[627] Other, more costly examples can be seen in instances of separate medical facility construction. The Naval Hospital Pensacola and the Biloxi VA wanted to build a joint facility on a Navy site in Panama City, Florida. Building a joint facility would have exceeded the VA's statutory limits for minor construction projects (the total funding amount contributes to the statutory limit, rather than only the VA share of cost).[628] The departments could have moved forward with the joint facility as a major construction project, but doing so would have required Congressional authorization.[629] Department officials told GAO major construction projects must first go through an internal priority determination process, and the departments said they would not necessarily have approved this joint major

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[622] Veterans' Benefits, 38 U.S.C. § 8126(a)(2)) retrieved from http://www.gpo.gov/fdsys/granule/USCODE-2011-title38/USCODE-2011-title38-partVI-chap81-subchapII-sec8126.
[623] VA/DoD Joint Executive Committee, *Annual Report Fiscal Year 2013*, 62, retrieved from http://www.va.gov/op3/docs/StrategicPlanning/VA_DoD_JEC_Annual_Report_for_FY_2013_signed_3.pdf.
[624] Ibid, 83.
[625] Government Accountability Office, *VA and DoD Health Care, GAO 12-992, September 2012*, 34, accessed December 22,2014, http://www.gao.gov/assets/650/648961.pdf.
[626] 99th Medical Group Commander and Senior Executive Staff, Nellis AFB, 99th Medical Group, meeting with MCRMC, October 3, 2014.
[627] Government Accountability Office, *VA and DoD Health Care, GAO 12-992, September 2012*, introduction page, elaborated in 18-29, http://www.gao.gov/assets/650/648961.pdf.
[628] Ibid, 31.
[629] Ibid, 32.

construction process.[630] Consequently, Navy and VA built two separate clinics in close proximity to each other.[631] "Officials were not certain of the cost impact of providing services in two clinics rather than one, but believed doing so would be less efficient and potentially more costly."[632]

Several examples of effective DoD and VA collaboration do exist and should be used to identify lessons learned and best practices. Most notable among them is the Captain James A. Lovell FHCC in Chicago, Illinois, the first fully integrated DoD–VA medical facility. This facility has made great strides in integrating the two cultures of DoD and VA.[633] Joint Patient Registration registers active-duty Service members into the VA system, allowing Service members to have a seamless transition to Veteran status. Medical Orders Portability allows medical orders entered into one system (either VA or DoD), to be transmitted to the other system, so providers and medical personnel can easily and efficiently manage consultations and other medical orders for their patients.[634] The successful integration of the two departments' facilities and staff into one FHCC, with the ultimate goal of providing effective and compassionate health care to Service members and veterans, shows the potential for further integration of DoD and VA medical centers.

Similar coordination issues also exist with DoD–VA billing. Although a uniform payment and reimbursement schedule has been developed, it is only for clinical services, and the reimbursement methodology still allows for variances and waivers. These rates are not used for nonclinical services; the departments have indicated rates for nonclinical services should be "negotiated independently."[635] Joint ventures and colocated facilities may further adjust the standard rates to account for these more involved sharing arrangements (e.g. staffing, square footage).[636] Waivers to the national rating methodology are allowed when the "standardized rate does not cover marginal costs or is higher than local market rates and both parties desire a larger discount from CMAC."[637] Waivers are discouraged, but if desired, must be approved by both cochairs of the HEC Financial Management Work Group (FMWG).[638]

The reimbursement methodology does not provide the right incentives to minimize Federal spending. For care provided to a VA beneficiary in an MTF, the VA will have to reimburse to DoD the full established rate.[639] If VA sends the patient to another VA facility (as opposed to a closer MTF with capability and access), the subsequent "bill" is only for the cost of travel and per diem, which is typically less than the established rate for the care.[640] From a Federal perspective, however, it is clearly less expensive to

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[630] Ibid, 32.
[631] Ibid, 31.
[632] Ibid.
[633] "Top 10 Innovations" publication, Captain James A. Lovell Federal Health Care Center, received as part of the MCRMC visit to North Chicago, June 10, 2014.
[634] Ibid
[635] Department of Defense and Department of Veterans Affairs, *VA-DoD Health Care Resources Sharing Rates-Billing Guidance Outpatient Services*, accessed December 22, 2014, http://www.tricare.mil/DVPCO/downloads/MOA/MOA-BillingGuidanceOutpatientServices.pdf.
[636] Outpatient Billing Guidance, page 2, paragraph 3C, accessed 14 October 2014, http://www.tricare.mil/DVPCO/downloads/MOA/MOA-BillingGuidanceOutpatientServices.pdf.
[637] Ibid, para 5.
[638] Ibid, para 5.
[639] VA/DoD Health Executive Council, *Memorandum of Agreement Health Care Resource Sharing Reimbursement Methodology*, accessed December 22, 2014, http://www.tricare.mil/dvpco/downloads/MOU.pdf.
[640] VA/DoD Health Executive Council, *Memorandum of Agreement Health Care Resource Sharing Reimbursement Methodology*, accessed December 22, 2014, http://www.tricare.mil/dvpco/downloads/MOU.pdf. "CHAMPUS National

care for the patient locally and avoid transportation costs. From a patient care perspective, it would be better for the veteran to receive treatment locally, because of increased likelihood of having support systems nearby, such as family and friends. In testimony at the Commission's Norfolk, Virginia, public hearing, RADM Elaine Wagner, Commander Naval Medical Center, Portsmouth, Virginia, stated one of the issues with DoD treating VA patients "is money. We still charge the VA when we do surgeries [on VA patients. And so, for [VA] to send their, for example, open heart surgeries to us. It...costs the VA system money. They can send them to Richmond at no cost. So, when you have an elderly man or woman who needs open heart surgery they and their family now, for the most part, are driving to Richmond because...they get their care free."[641] The DoD/VA Resource Sharing Agreement between VA Southern Nevada Healthcare System and Michael O'Callahan Federal Medical Facility at Nellis Air Force Base includes a "Right of First Refusal" clause.[642] According to such a clause, if one facility is unable to provide care, that facility will first contact the other joint venture facility to determine if capability and capacity exist there before sending the patient elsewhere. There is no evidence of monitoring compliance with this kind of provision.

GAO found there has been a substantial backlog with VA reimbursements to DoD in part because of differences in business practices for assigning diagnostic codes and capturing patient workload.[643] The HEC is working to resolve this backlog and is developing a methodology for streamlined reimbursement.[644] According to this plan, VA will pay prospectively for care, with DoD and VA reconciling reimbursements quarterly. This methodology is consistent with traditional intra-agency agreements in which payment is made up-front based on historical workload.[645] When executed, this methodology will facilitate implementation of RSAs and further collaboration between DoD and VA.

Conclusions:
Service members would benefit substantially from enhanced collaboration between DoD and VA. Joint health care could be accomplished, and would be more cost-effective. To accomplish these goals, the JEC must be granted additional authorities and responsibilities to standardize and enforce collaboration between DoD and VA. For example, the JEC should define common services that routinely would be coordinated between DoD and VA across all local markets. Such a policy would ensure local DoD and VA leaders are collaborating and would help with implementation, standardization, and efficient operation of RSAs.

To ensure DoD and VA make joint decisions, the JEC should be required to certify in advance all expenditures of funds by DoD or VA associated with common services are in compliance with the JEC's strategic plan. Certified expenditures should include, at

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Pricing System (CMAC System), accessed January 9, 2015, http://www.tricare.mil/CMAC/home.aspx. (The CHAMPUS National Pricing System (CMAC System) is a query-based system that will allow users to review pricing/prevailing fees for a particular procedure code within a selected locality. Payment rates may be calculated based on user data inputs.)

[641] Military Treatment Facility Commanders and the Veterans Administration, Norfolk Public Hearing Testimony, December 13, 2013, http://www.mcrmc.gov/public/docs/meetings/20131203/MCRMC-Norfolk-Dec03-Panel1-20131203.pdf.

[642] VA and DoD Resource sharing Agreement between Southern Nevada Healthcare System and the Michael O'Callaghan Federal Medical Center, Nellis AFB, para 8.

[643] Government Accountability Office, *VA and DOD Health Care: Departmental-Level Actions Needed to Assess Collaboration Performance, GAO 12-992, September 2012*, 18-21, http://www.gao.gov/assets/650/648961.pdf

[644] HEC Decision Brief, October 3, 2014, provided by DHA to MCRMC, October 10, 2014.

[645] Ibid.

a minimum, acquisition of any new capital assets or sustainment, restoration, and modernization of capital assets, for both DoD and VA medical components. The JEC's annual report should include a list of the common-service projects funded during the fiscal year by DoD and VA, identifying which of the projects were certified as consistent with the JEC's strategic plan and, if any were not certified, the reasons such projects were funded without certification.

Common services for DoD and VA should include, at a minimum, EHRs and a uniform DoD/VA formulary for transitioning Service members. A single EHR system is the ideal solution for improving Service member health care and minimizing overall EHR costs. Should DoD and VA adopt separate EHR systems, these systems must have complete interoperability between the departments and with civilian institutions in accordance with the national data standards and architectural requirements of the Office of the National Coordinator for Health Information Technology, Department of Health and Human Services. To further facilitate transition and viewability, VA records should be established for all Service members at all Services points of entry, similar to the Joint Patient Registration Process established at Lovell FHCC.[646] Creating a uniform DoD and VA formulary for certain key drugs frequently prescribed to Service members would help provide continuity of care for those who are transitioning from the DoD to the VA health system. Ensuring psychiatric and pain medications, for example, are continued during transition is particularly important given the potential adverse effects that can be experienced in response to misusing or abruptly discontinuing such drugs.

The reimbursement methodology should be standardized and automated. Local reimbursement variations, as seen in the current methodology, cause payment delays and decrease incentives for further collaboration and resource sharing. DoD medical facilities should be the first choice for VA patients who are not seen in local VA facilities. The rates charged by these facilities for care, which should be based on the standard reimbursement methodology, should not be considered when determining the venue of outside care because both DoD and VA facilities are funded by the Federal Government. The prospective reimbursement arrangements being coordinated through the JEC would improve collaboration and merit support from both departments. Additional processes should be implemented to automate reimbursements to the extent possible, thereby streamlining and encouraging additional collaboration.

Recommendations:

- The JEC should be granted additional authorities and responsibilities to standardize and enforce collaboration between DoD and VA, including:
  - Defining common services that will regularly be jointly conducted throughout DoD and VA health care systems.
  - Creating standard terms for RSAs on common services that can quickly and efficiently be implemented by local commanders.

[646] "Top 10 Innovations" publication, Captain James A. Lovell Federal Health Care Center, received as part of the MCRMC visit to North Chicago, June 10, 2014.

- Monitoring planned expenditures for common services by both DoD and VA, comparing these expenditures to the JEC's strategic plan, and certifying whether the planned expenditures are consistent with that strategic plan.

- Approving in advance any new capital assets acquisition, or sustainment, restoration, and modernization of capital assets, of either DoD or VA medical components.

- Reporting quarterly to the Congress on DoD and VA expenditures, their consistency with the JEC's strategic plan, and reasons for any inconsistent expenditures.

- Overseeing EHR compliance with the Office of the National Coordinator for Health Information Technology standards across both DoD and VA, ensuring health care data can be quickly and easily shared between the departments.

- Ensuring that the DoD and VA immediately begin the process of establishing a health care record within the VA EHR system for all current military Service members. The VA should also immediately begin the process of establishing a health care record within the VA EHR system for all military service members who complete Service-specific enlisted and officer accession programs.

- Monitoring and reporting on the percentage of the military force that is represented with a health care record in both DoD and VA EHR systems.

- Creating a uniform formulary to include all the drugs identified as critical for transition by the JEC beginning immediately with the pain and psychiatric classes of drugs. The JEC should determine classes of drugs critical to ensuring seamless and smooth transition of Service members from the Military Health System to VA Health System. The JEC should review its list of critical drug classes periodically and as the need arises. The JEC must mandate, oversee, and report to the Congress on employment of all joint procurement options, for example joint contracts and prime vendor contracts, to maximize cost savings for the strategic uniform formulary.

- Establishing a standard reimbursement methodology for DoD and VA provision of services to each other. Reimbursements should be real time and automated to the extent possible. The JEC should establish policies under which DoD and VA do not consider reimbursement rates when determining where to send patients, because the reimbursement rates represent only transfer prices within the Federal Government.

Implementation:

- 38 U.S.C. § 320 governs the JEC. 38 U.S.C. § 320 should be amended to require the JEC to define "common services." "Common services" will be evaluated for coordination between the DOD and VA not less than annually. 38 U.S.C. § 320 should be amended to require quarterly reporting to the Congress on DOD and VA expenditures, their consistency with the JEC's strategic plan, and reasons for any inconsistent expenditures. Language should be added to 38 U.S.C. § 320 to expand JEC authority to require the

DOD–VA reimbursement process be executed as an interagency agreement where the JEC ensures successful resolution, which will be included in its annual report to the Congress.

- 10 U.S.C. § 1104 and 38 U.S.C. § 8111 govern the coordination and sharing of health care resources between VA and DOD. These code sections should be amended to create RSA categories that JEC determines can be quickly and efficiently implemented by heads of local medical facilities in a standard manner across all DOD–VA.

- 10 U.S.C. § 1104 and 38 U.S.C. § 8111 should be amended to make the JEC's review and approval a mandatory step in the acquisition, sustainment, restoration, or modernization of any DOD or VA capital assets. DOD and VA should be prohibited from obligating or expending funds for such acquisition, sustainment, restoration, or modernization until the JEC's review and approval occurs.

- 10 U.S.C. § 1074g governs the DOD uniform formulary. It should be amended to establish a process under JEC to determine classes of drugs critical for transition and review them periodically and as the need arises and to create a strategic uniform formulary to include all drugs determined by JEC to be critical for transition. 38 U.S.C. § 320, which governs JEC, should be amended to reflect the JEC's new role in developing a strategic uniform formulary.

- Any other regulations (including the Code of Federal Regulations, if applicable), instructions, directives, or internal policies necessary to conform to the recommendation described above should be reissued, updated, amended, retracted, or otherwise changed as needed. Such as, but not limited to:

  - VHA Handbook 1108.08, which governs the VA National Formulary.

  - DOD Instruction 6010.23

  - VHA Handbook 1660.04

QUALITY OF LIFE

RECOMMENDATION 9: PROTECT BOTH ACCESS TO AND SAVINGS AT DEPARTMENT OF DEFENSE COMMISSARIES AND EXCHANGES BY CONSOLIDATING THESE ACTIVITIES INTO A SINGLE DEFENSE RESALE ORGANIZATION.

Background:
The Defense Commissary Agency (DeCA) operates "a worldwide chain of commissaries providing groceries to military personnel, retirees, and their families."[647] DoD operates a separate system of exchanges, providing goods and services similar to commercial department or discount stores.[648] This system includes the Army Air Force Exchange System (AAFES), the Navy Exchange (NEX), and the Marine Corps Exchange (MCX).[649] Together, commissaries and exchanges provide goods and services with total annual sales of more than $17 billion in 2013.[650] There are a limited number of cases where a commissary and an exchange are operated together as a single store including Navy Exchange Markets (NEXMARTs) overseas and a limited number of combined stores in the United States.[651]

In addition to the main commissary and exchange stores that form the foundation of the defense resale system, the exchange systems operate thousands of smaller retail outlets, providing a wide range of services such as convenience stores, gas stations, barber and beauty shops, florists, optical shops, auto repair, car washes, vending, residential services, lunches for military schools, financial services, repair/installation services, and rental services.[652] Over time, exchanges have also assumed responsibility for military uniform stores, book stores, liquor stores, and personal phone and telecommunication services for Service members around the world.[653] Exchanges also support small retail outlets on Navy ships and field tactical exchanges, provide services through embedded Marines in combat zones, and, when called upon, assist with disaster recovery and other emergency response missions.[654] In addition, the Navy Exchange Command (NEXCOM) manages Navy Lodges and the Navy Clothing

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[647] "About Us," Defense Commissary Agency (DeCA), accessed October 17, 2014, http://www.commissaries.com/about_us.cfm.
[648] *See* Armed Services Exchange Regulations, DoDI 1330.21 (2005). *See also* Armed Forces, 10 U.S.C. § 2481.
[649] Army and Air Force Exchange Service Operations, AR 215-8 and AFI 34-211(I) (2012). Responsibility and Authority for Navy Exchange Operations, OPNAVINST 5450.331A (2008). MCCS Policy Manual, MCO P1700.27B (2007).
[650] AAFES, *Army and Air Force Exchange Service, 2013 Annual Report*, 22, accessed December 16, 2014, http://www.aafes.com/images/AboutExchange/PublicAffairs?2013_annualrpt.pdf. NEXCOM, *Navy Exchange Command 2013 Annual Report*, 14, accessed December 16, 2014, http://www.mynavyexchange.com/assets/Static/NEXCOMEnterpriseInfo/AR13.pdf. Marine Corps Exchange data provided by Office of the Under Secretary of Defense for Personnel and Readiness, e-mail to MCRMC, December 16, 2014. DECA, *Defense Commissary Agency, FY 2013 Annual Report*, 7, accessed December 16, 2014, http://www.commissaries.com/documents/whatsnew/afr/afr-2013.pdf.
[651] Armed Forces, 10 U.S.C. § 2487(a)(2). *See also* Armed Forces, 10 U.S.C. § 2488.
[652] Armed Services Exchange Regulations, DoDI 1330.21 (2005), Enclosure 3, 13-14.
[653] Ibid.
[654] Tom Shull, Chief Executive Officer, Army & Air Force Exchange Service Overview, briefing to MCRMC, June 10, 2014. AAFES, meeting to discuss AAFES response to Commissary legislative proposals with MCRMC, July 2, 2014. Robert Bianchi, Chief Executive Officer, Navy Exchange Service Command Overview for Military Compensation and Retirement Modernization Commission, briefing to MCRMC, September 18, 2014. Robert Bianchi, Chief Executive Officer Navy Exchange Service Command Overview, briefing to MCRMC, December 2013. Robert Bianchi, Chief Executive Officer, Navy Exchange Service Command Overview, briefing to MCRMC, September 18, 2014. NAF Business & Support Services (MR) Division, Manpower and Reserve Affairs, HQMC, 23, briefing to MCRMC, September 17, 2014.

and Textile Research Facility, sharing a common IT infrastructure, staff support, and other resources.[655] The MCX shares support staff and other resources with the Marine Corps' Morale, Welfare and Recreation (MWR); Warfighter and Family Services; and Child, Youth, and Teen programs.[656]

Commissaries and exchanges have evolved from loosely organized systems of sutlers and post traders into a complex "ecosystem" of services and benefits. Although the two systems are, by law, operated as separate entities,[657] there are strong interactions between them. For example, AAFES estimates that 20–30 percent of its foot traffic, representing at least $1 billion in sales, is attributable to proximity to commissaries.[658] To limit direct competition, laws, policies, and decisions made by the Defense Resale Board restrict the categories of products and services that each can sell.[659]

Although both commissaries and exchanges provide discounted goods to Service members, they operate using different business models. The commissaries sell groceries at cost[660] plus a 5 percent surcharge[661] and their operations are funded with appropriated funds (APF).[662] Exchanges sell merchandise for profit, more like commercial retailers. Gross profits are used to support the exchange system, covering operating and other expenses; recapitalize facilities and systems; or are provided as dividends to fund MWR programs.[663] Both commissaries and exchanges provide access to U.S. goods in areas of military concentration around the world, and both provide a nonpay financial benefit to patrons through discounts.

Commissaries and exchanges also have different models of coordination with the Military Services. DeCA, as a separate defense agency, reports to the Office of the Secretary of Defense.[664] DeCA also has a Board of Directors (BOD) with representation from all the Military Services.[665] This BOD promotes alignment of commissary services, investments, and operations with the needs of the individual Military Services.[666] AAFES relies on its BOD, which includes Army and Air Force representation, for such alignment.[667] In addition to having a BOD, the NEX is part of

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[655] Robert Bianchi, Chief Executive Officer, Navy Exchange Service Command Overview, briefing to MCRMC, September 18, 2014.
[656] NAF Business & Support Services (MR) Division, Manpower and Reserve Affairs, HQMC, 23, briefing to MCRMC, September 17, 2014.
[657] Armed Forces, 10 U.S.C. § 2487(a)(1).
[658] Army and Air Force Exchange Service, *Memorandum for ASD (R&FM), Army and Air Force Exchange Service (AAFES) Response to Commissary Legislative Proposal*, March 17, 2014.
[659] *See, e.g.*, Armed Forces, 10 U.S.C. § 2481(a) (establishing "a world-wide system of commissary stores and a separate world-wide system of exchange stores"). *See also* Armed Forces, 10 U.S.C. § 2484 (stating that commissary stores are intended to be similar to commercial grocery stores); Armed Services Exchange Regulations, DoDI 1330.21, Enclosure 3, 13-14 (2005) (permitting exchanges to engage only in enumerated retail activities and stating that commissaries have "primary" role in selling groceries); and Army and Air Force Exchange Service Operations, AR 215-8 and AFI 34-211(I), 61-62, (2012) (enumerating specific items that may be sold by AAFES and stating that food items sold by AAFES "supplement the primary full-line grocery service provided by the commissary system").
[660] Armed Forces, 10 U.S.C. § 2484(e).
[661] Armed Forces, 10 U.S.C. § 2484(d). *See also* Armed Forces, 10 U.S.C. § 2484(h).
[662] Armed Forces, 10 U.S.C. § 2483.
[663] Based on data provided by Office of the Under Secretary of Defense for Personnel and Readiness, e-mail to MCRMC, March 31, 2014. In FY 2012, $333 million of $496 million in net income was provided to MWR.
[664] *See* DoD Commissary Program, DoDI 1330.17 (2014), Enclosure 7, 45.
[665] DoD Commissary Program, DoDI 1330.17 (2014), Enclosure 8, 47.
[666] Ibid.
[667] Board of Directors, Army and Air Force Exchange Service, Army Regulation 15–110, 2 (2009). Board of Directors, Army and Air Force Exchange Service, AFI 34–203(I), 2 (2009).

NEXCOM, which is more integrated with the operational Navy.[668] For example, NEX general managers report to the installation commander to ensure that exchanges are responsive to the needs of the command.[669] Installation commanders review financial performance and facility planning and provide input on the general manager's performance evaluation.[670] The MCX is also tightly integrated as part of Marine Corps Community Services (MCCS). Falling under the same organization as MWR and Marine and Family Programs, allocation of resources and exchange profits between all these programs are made in an integrated fashion.[671]

In 2013, the commissaries received $1.4 billion in APF, of which $152 million was spent on second destination transportation costs for transporting U.S. goods overseas.[672] That same year, the exchanges received approximately $397 million in APF.[673] This amount included $170 million for contingency support, covering expenses associated with the transportation of merchandise from warehouses to remote exchange sites, incremental inventory variances above the noncontingency average, danger pay, deployment bonuses, overtime, and foreign post differentials for deployed associates.[674] Also included was $179 million for second destination transportation,[675] and $47 million for direct and indirect exchange operating costs, including a limited number of active-duty military personnel, military travel, and utilities for authorized overseas locations and a limited number of CONUS remote and isolated locations.[676]

For additional information on defense resale, please see the Report of the Military Compensation and Retirement Modernization Commission: Interim Report *(Section 5.1.1* and *Section 5.8.2).*

Findings:
In the Commission's survey, town halls, and other public forums, commissary and exchange benefits frequently received strong support, with a primary focus on commissary discounts, yet some Service members did challenge the value of the commissary and exchange benefits. Typically they were skeptical of the claimed savings and the quality of nonbranded products such as produce.[677] Even among skeptics, however, there was consistent acknowledgment of the additional benefit offered overseas, and in remote and isolated locations, where commercial alternatives are either not available or not comparable.[678]

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[668] Morale, Welfare and Recreation (MWR)/Navy Exchange (NEX) Board of Directors (BOD), OPNAVINST 1700.13B, 1 (2004).
[669] Responsibility and Authority for Navy Exchange Operations, OPNAVINST 5450.331A, 3 (2008).
[670] Ibid.
[671] NAF Business & Support Services (MR) Division, Manpower and Reserve Affairs, HQMC, 23, briefing to MCRMC, September 17, 2014.
[672] Information provided by DeCA, e-mail to MCRMC, May 6, 2014.
[673] Office of the Under Secretary of Defense for Personnel and Readiness, e-mail to MCRMC, November 6, 2014. For a description of the authorized use of APF in military exchanges, *see also* Armed Services Exchange Regulations, DoDI 1330.21 (2005), Enclosure 9, and Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources, DoDI 1015.15 (2008), Enclosure 4.
[674] Ibid.
[675] Pursuant to 10 U.S.C. § 2643, second-destination transportation funding covers the expenses of transporting exchange supplies and products to destinations outside the continental United States.
[676] Office of the Under Secretary of Defense for Personnel and Readiness, e-mail to MCRMC, November 6, 2014.
[677] Survey respondents, comments submitted via MCRMC survey, July 1, 2014 to October 10, 2014. *See also, e.g.,* MCRMC letter writer, comment form submitted via MCRMC website, June 18, 2014 ("In addition, we MUST do a better job of providing fresh produce that is nice and fresh and not rotten, which is not the case in most commissaries.")
[678] Examples include audience member comments made at MCRMC town hall meeting, Joint Base San Antonio, San Antonio, Texas, January 7, 2014.

In FY 2013, DeCA reported the average discount for commissary patrons to be 30.5 percent[679] and the exchanges reported savings between 20 and 24 percent.[680] In Defense Manpower Data Center's 2013 Living Patterns Survey, 92 percent of active-duty respondents indicated they had purchased goods or services at a military commissary in the previous 12 months.[681] For military exchanges, the level was 96 percent.[682] In surveys conducted by the commissaries and exchanges, patrons indicate a high level of overall satisfaction as compared to industry averages. Exchange surveys in 2013, based on the American Customer Satisfaction Index (ACSI), reported overall patron satisfaction scores of 75 (AAFES), 79 (NEX) and 83 (MCX),[683] compared to the average department and discount store rating of 77.[684] The commissary ACSI score for 2013 was 82 as compared to the industry average of 77.[685] The 2014 Military Lifestyle Survey conducted by Blue Star Families ranked commissaries and exchanges as the most utilized service, with the third highest satisfaction rate, behind MWR and chaplain services.[686] Comments made during the Commission's town halls and other meetings as well in survey responses supported these findings:

> *While there are some items that may be found at a lower individual price on the economy the total combined savings remains constant.*[687]

> *The prices at competing grocery stores are what they are because these outfits know that the Commissary Store exists in the community. If that competition goes away we will all pay more.*[688]

> *When I went out in town and we tried to get the same amount, we got about half of the groceries that we could afford at the Commissary.*[689]

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[679] "New Price Study Validates 30% Savings," Defense Commissary Agency (DeCA) web site, January 9, 2014, accessed June 11, 2014, http://www.commissaries.com/press_room/press_release/2014/DeCA_01_14.cfm. DeCA reported an average patron savings of 30.5% in FY 2013. If this level of savings is accurate, then the total financial benefit to Service members in FY 2013 was approximately $2.8 billion. Although multiple groups in discussions with MCRMC have challenged this estimate as being overstated, the evidence offered to support these challenges has typically been small, local, market basket surveys that are not structured to represent a world-wide, appropriately weighted average. That being said, DeCA's estimation method has limitations. For example, it only compares products that have identical Universal Price Codes (UPCs) and thus does not consider store brands (private labels) or some very large sizes at commercial grocery and discount stores. Estimated discounts vary based on location and individual shopping patterns, but these variations are typically not communicated to patrons.

[680] "AAFES Media Advisory 12-059, Don't Shop 'til you Drop – Survey Says Make the Exchange your First Stop!," Army Air Force Exchange Service, October 10, 2012, accessed May 7, 2014, http://publicaffairssme.com/pressrelease/?p=1000. *See also* NEXCOM Fall 2013 Savings by Market report, survey conducted by RetailData, LLC, December 19, 2013, e-mail to MCRMC, May 21, 2014.

[681] Defense Manpower Data Center, *Living Patterns Survey, Tabulation of Responses*,18, http://www.mcrmc.gov/public/docs/report/qol/2013_DMDC_LivingPatternSurvey_Commissary_Usage.pdf .

[682] Ibid, 19.

[683] David Turner, NAF Business & Support Services (MR) Division, Manpower and Reserve Affairs, HQMC, briefing to MCRMC, September 17, 2014.

[684] "Department and Discount Stores," American Customer Satisfaction Index, accessed October 15, 2014, http://theacsi.org/index.php?option=com_content&view=article&id=147&catid=&Itemid=212&i=Department+and+Discount+Stores.

[685] Statement of Joseph H. Jeu, Director, Defense Commissary Agency before the Military Personnel Subcommittee of the Committee on Armed Services, U.S. House of Representatives, First Session, 113th Congress, November 20, 2013, accessed October 20, 2014, https://www.commissaries.com/foia/documents/director_statement_before_congress_2013.pdf.

[686] Blue Star Families, *2014 Military Family Lifestyle Survey, Comprehensive Report*, 24, accessed December 14, 2014, https://www.bluestarfam.org/sites/default/files/media/stuff/bsf_report_comprehensive_reportfinal_single_pages.pdf

[687] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.

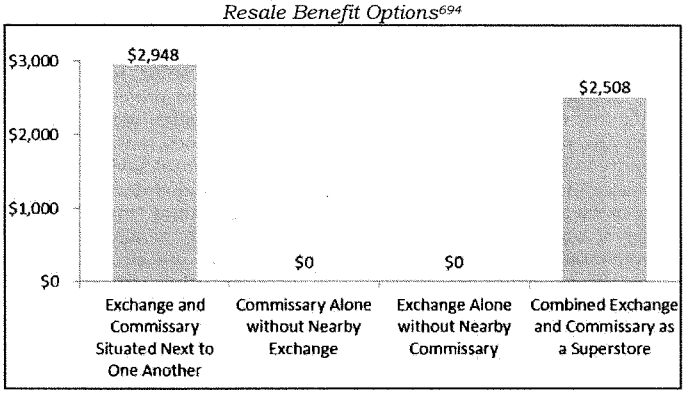
[688] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.

[689] Audience member, comment made at MCRMC town hall meeting, Norfolk, VA, December 2, 2013.

The Commission's survey found similar results.[690] For the commissary benefit, discounts and convenience were ranked higher than other features such as product assortment, a wide selection of name brand products, or a sense of military community. As the level of discount was hypothetically increased, the perceived value placed on discounts increased even faster.[691]

The Commission's survey also showed that Service members and retirees value commissaries and exchanges that are collocated.[692] As seen in Figure 21, beneficiaries expressed a strong preference for the availability of both benefits in the same location or same store. Conversely, survey respondents did not prefer availability of either store without the other nearby.[693] This result reaffirms the complementary offerings of commissaries and exchanges and reinforces the preference for convenience.

Figure 21. Active-Duty Services Members' Perceived Value: Resale Benefit Options[694]



The commissaries and the three exchange systems perform similar missions, for similar patrons, with similar staff, using similar processes. In 2003, the Deputy Secretary of Defense directed the development of a plan to form a "single optimized Armed Service exchange system."[695] Soon thereafter, the Unified Exchange Task Force (UETF) was formed to perform the associated analysis.[696] Focusing on five areas of support, finance and accounting (FA), human resources (HR), information technology (IT), logistics, and procurement, the UETF worked with exchange staffs to inventory and analyze the processes in each of these areas of support, for each exchange. Table 14 summarizes the task force's assessment of commonality.

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[690] Survey results, MCRMC survey, July 1, 2014 to October 10, 2014.
[691] Survey results, MCRMC survey, July 1, 2014 to October 10, 2014.
[692] Survey results, MCRMC survey, July 1, 2014 to October 10, 2014.
[693] Survey results, MCRMC survey, July 1, 2014 to October 10, 2014.
[694] Survey results, MCRMC survey, July 1, 2014 to October 10, 2014. This figure displays the average amount in dollars that survey respondents valued compensation alternatives. Presentation in dollar values allows the value of compensation features to be directly compared.
[695] Paul Wolfowitz, Deputy Secretary of Defense, *Memorandum for Secretaries of the Military Departments Chairman of the Joint Chiefs of Staff regarding Future of the Armed Services Exchange Systems*, May 9, 2003.
[696] Unified Exchange Task Force, *Modified Business Case Analysis for Military Exchange Shared Services*, August 26, 2005, provided to MCRMC by the Office of the Under Secretary of Defense for Personnel and Readiness, June 11, 2014.

Table 14. UETF Assessment of Process Commonality in Selected Exchange Functional Areas[697]

Functional Areas	Processes	Estimated Number of Common Processes	Percent Commonality
FA	147	146	99%
HR	121	109	90%
IT	67	67	100%
Logistics	55	55	100%
Procurement*	23	21	91%
TOTAL	**413**	**398**	**96%**

Numerous studies commissioned by DoD or other Federal entities have recommended some form of consolidation or increased cooperation in pursuit of improved cost-effectiveness. Following the "Jones commission," which led to the consolidation of commissaries, in 1990,[698] the "Jones II commission" produced a "DoD Study of the Military Exchange System."[699] The study recommended that, "the military exchange systems be consolidated into a single organization in order to eliminate current redundancies, improve operational efficiencies, and achieve projected annual savings from consolidation of $35 million."[700] In 1991, the Logistics Management Institute (LMI) reviewed the methodology, findings, financial analyses, and conclusions of the 1990 DoD study.[701] The LMI assessment estimated the annual savings associated with exchange consolidation to be $36.6 million,[702] but recommended against immediate consolidation in favor of a series of "first steps"[703] that would "make sound business sense whether or not the exchange systems are eventually consolidated."[704] The LMI assessment recommended waiting 3 years to reevaluate the situation, stating that, "After 3 years, the results of those first steps, together with a clearer picture of troop reductions and the evolving retail environment, will substantially lower the risks of any decision."[705] Most of the first step recommendations were not implemented.[706] A 1995 review by the Government Accountability Office (then known as the General Accounting Office) concluded that "appropriated fund support to the commissaries and exchanges could be reduced about $331.5 million by merging some commissaries and exchanges ($319.5 million) and closing certain other commissaries ($12 million)."[707] An SRA International Inc. review in 1996 determined that full

[697] Ibid, 3. The asterisk following "Procurement" refers to a footnote in the UETF report, which notes that this line of the figure refers only to non-resale procurement, and further notes that no comparable data was available to the UETF regarding revenue-generating contracts or real property processes.
[698] *See* MCRMC, Report of the Military Compensation and Retirement Modernization Commission: Interim Report, June 2014, 124-25, http://www.mcrmc.gov/index.php/reports.
[699] Office of the Assistant Secretary of Defense (Force Management and Personnel), *DoD Study of the Military Exchange System*, September 7, 1990.
[700] Ibid, ch. 1, 10.
[701] "Toward a More Efficient Military Exchange System," Logistics Management Institute, Report PL110R1, July 1991, accessed November 20, 2014,
http://oai.dtic.mil/oai/oai?verb=getRecord&metadataPrefix=html&identifier=ADA255738.
[702] Ibid, iii.
[703] Ibid, iv.
[704] Ibid, Ch. 1, 7.
[705] Ibid, Ch. 1, 7-8.
[706] Office of the Deputy Assistant Secretary of Defense, Director, Morale, Welfare, Recreation, and Resale Policy, e-mail to MCRMC, October 2, 2014.
[707] General Accounting Office, *Potential Reductions to Operation and Maintenance Program*, GAO/NSIAD-95-200BR, September, 1995, 12, accessed December 21, 2014, http://www.gpo.gov/fdsys/pkg/GAOREPORTS-NSIAD-95-200BR/pdf/GAOREPORTS-NSIAD-95-200BR.pdf. Note that this recommendation was rejected by a DoD Study group in December 1995. Although the study group did not have the resources available to come to any definitive

integration was viable, and estimated annual savings to be $176 million.[708] The UETF's 2005 report examined a 1999 PricewaterhouseCoopers (PwC) study which recommended a "Unified Exchange" model, predicting that the use of best-practice processes and systems would produce a more creative, more flexible, and more responsive organization.[709] PwC estimated $206 million in annual savings as a result of full integration.[710] The UETF, originally chartered to evaluate full exchange integration, was redirected by its executive board to limit its study to partial integration, establishing Shared Services Business Units in five areas of support.[711] Using this model, the UETF estimated steady-state annual savings to be $151 million to $162 million.[712] Most of these studies started with an assumption that there would be no reduction in patron benefits and cited ways in which the benefit would improve from a patron perspective as a result of increased cooperation, partial integration, or full consolidation.

In 2000, as an alternative to consolidation, the Under Secretary of Defense for Personnel and Readiness directed the establishment of a formal process to identify efficiencies by individual service exchanges and collectively through cooperative efforts.[713] That same year, the Exchange Cooperative Efforts Board was created. In 2012, DeCA became a voting member of the board, and the board was renamed the Cooperative Efforts Board (CEB).[714] In its 2013 annual report, the CEB cited 33 examples of cooperation,[715] with quantified 2013 savings of approximately $16 million,[716] about 0.4 percent of the combined operating expenses of the exchanges and commissaries.[717] A large portion of these savings resulted from long standing arrangements such as avoidance of merchant fees through NEXCOM's and MCX's use

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conclusions with regard to the savings, the GAO recommendation was rejected because it did not maintain the commissary pricing model (cost plus 5%) and guarantee no loss of MWR dividend.

[708] Systems Research and Applications (SRA) International, *Integrated Exchange System Task Force Analysis, 1996*, accessed December 21, 2014, http://www.mcrmc.gov/public/docs/report/qol/1996_Exchange_Study-SRA_International-Provided_by_OSD-11JUN2014_DeRA-FN45.pdf.

[709] *See* Unified Exchange Task Force, *Modified Business Case Analysis for Military Exchange Shared Services*, 5-6, August 26, 2005, provided to MCRMC by the Office of the Under Secretary of Defense for Personnel and Readiness, June 11, 2014 (citing PricewaterhouseCoopers, *Joint Exchange Due Diligence*, 1999).

[710] Ibid.

[711] Unified Exchange Task Force, *Modified Business Case Analysis for Military Exchange Shared Services*, E-1, August 26, 2005, provided to MCRMC by the Office of the Under Secretary of Defense for Personnel and Readiness, June 11, 2014.

[712] Ibid.

[713] *Under Secretary of Defense, Review of Exchange Systems in the Department of Defense, July 31, 2000*, accessed December 21, 2014, http://www.mcrmc.gov/public/docs/report/qol/Review_of_Exchange_Systems_in_the_DoD-USD_PR_Memo-31JUL2000_DeRA-FN50.pdf.

[714] Cooperative Efforts Board (CEB) Guiding Charter, March 28, 2012.

[715] Department of Defense, *Memorandum for Principal Deputy Under Secretary of Defense (Personnel and Readiness), 2013 Annual Report on Exchange Systems Cooperative Efforts*, April 29, 2014.

[716] Ibid. Note that the $16 million total does not include savings that are implied but not quantified, savings that occur in years other than FY 2013 (*e.g.*, 9 of the 10 years of the CCTV contract savings), and savings that occurred but were not the result of cooperation between the defense resale organizations (*e.g.*, merchant fees avoided by AAFES as a result of its private-label credit card). The actual savings may be less than $16 million because not all relevant savings were validated.

[717] The 0.4% figure is based on an overall operating expense of $2,467 million, as calculated by combining financial statements provided by the several exchanges and DECA to the commission. *See* AAFES, *Army and Air Force Exchange Service, 2013 Annual Report*, 22, accessed December 16, 2014, http://www.aafes.com/images/AboutExchange/PublicAffairs?2013_annualrpt.pdf; NEXCOM, *Navy Exchange Command 2013 Annual Report*, 14, accessed December 16, 2014, http://www.mynavyexchange.com/assets/Static/NEXCOMEnterpriseInfo/AR13.pdf; Marine Corps Exchange data provided by Office of the Under Secretary of Defense for Personnel and Readiness, e-mail to MCRMC, December 16, 2014; DECA, *Defense Commissary Agency, FY 2013 Annual Report*, 7, accessed December 16, 2014, http://www.commissaries.com/documents/whatsnew/afr/afr-2013.pdf.

of the MILITARY STAR® card,[718] and not from recent efforts to cooperatively reduce costs. The deeper level of cooperation proposed in many of the studies mentioned above, including consolidated support processes and staffing, consolidated infrastructure, convergence to common IT systems, and aggressively combined procurement and logistics, have not been achieved under the current structure.

DeCA stated to the Commission that it has already reduced annual operating costs by more than $700 million since 1992 through operating efficiencies.[719] It has also shifted a portion of its costs to military patrons by including distribution and shelf-stocking costs in the cost of goods. Yet the FY 2015 DoD budget submission proposed a 71 percent reduction in the DeCA budget, from $1.4 billion to $.4 billion, over a 3-year period.[720] Such a significant reduction in funding would necessitate a change in the commissary business model. Groceries could no longer be sold at cost, discounts would be significantly reduced, and the financial benefit to Service members would be diminished. Respondents to the Commission's survey indicated that a commissary discount of 10 percent or less offers little to no value.[721] In response to the reductions proposed by DoD, DeCA recommended fundamental changes in the laws and policies governing its operations. DeCA proposed a relaxation of many restrictions imposed upon it as an APF organization engaged in retail sales, allowing it to operate more like commercial grocery stores. DeCA also proposed relaxation of restrictions that limit its ability to compete with the exchanges.[722]

Although they have been able to maintain their MWR contributions, there are also indicators of significant financial pressures on the exchanges. AAFES saw a 6 percent drop in sales from 2011 to February 2014, from $6.5 billion to $6.1 billion, and projects a 23 percent drop in sales between 2011 and 2017, to $5 billion, based largely on expected reductions in the force structure.[723] In the current environment, AAFES would have little to no net profit without the income derived from its private-label credit card, concessions, or the sale of alcohol and tobacco.[724] In December 2013, Moody's downgraded AAFES's long-term issuer rating to Aa3,[725] due to a deterioration in its credit profile as a stand-alone entity.[726] Public discussions and Congressional hearings have included proposals to reduce or eliminate the appropriated funding currently provided to exchanges to cover costs such as overseas utilities and second

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[718] The MILITARY STAR® card is a private-label credit card managed by AAFES. Although originally accepted only at AAFES, its use has been expanded to the other military exchanges.
[719] Director, Defense Commissary Agency, briefing to MCRMC, 10, October 7, 2013.
[720] Department of Defense, Office of the Under Secretary of Defense (Comptroller), *National Defense Budget Estimated for FY 2015*, April 2014, 112, 119, accessed October 20, 2014, http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2015/FY15_Green_Book.pdf.
[721] Survey results, MCRMC survey, July 1, 2014 to October 10, 2014.
[722] Army and Air Force Exchange Service, *Memorandum for ASD (R&FM), Army and Air Force Exchange Service (AAFES) Response to Commissary Legislative Proposal*, March 17, 2014.
[723] Army and Air Force Exchange Service brief from Director, AAFES, e-mail to MCRMC, February 2014.
[724] Army and Air Force Exchange Service, *Statement of Earnings 2012*, 19, accessed November 7, 2014, http://aafes.imirus.com/Mpowered/book/vaar12/i1/p20.
[725] Moody's rates the creditworthiness of securities on a 9-point scale, ranging from Aaa (the highest) to C (the lowest). Ratings from Aa (the second-highest) to Caa (the third-lowest) can be modified by adding a 1, 2, or 3. AAFES's long-term issuer rating was Aa2 before being downgraded one unit, to Aa3. *See* Moody's Investors Service, *Rating Symbols and Definitions*, accessed October 27, 2014, https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.
[726] "Rating Action: Moody's downgrades Army and Air Force Exchange's issuer rating to Aa3," Moody's Investors Service, https://www.moodys.com/research/Moodys-downgrades-Army-and-Air-Force-Exchanges-issuer-rating-to--PR_289276.

destination transportation.[727] Absent changes to the overseas benefit, such cuts would further reduce profitability, patron discounts, and/or MWR distributions.

Conclusions:
The commissary and exchange benefits are valued by many Service members, retirees, and their families, and should be maintained. These resale organizations provide familiar U.S. goods and services, meeting basic needs of Service members and their families, particularly in remote, isolated, and overseas locations. The discounts provide nonpay compensation that contributes to the financial health and readiness of many military families. No evidence was found to show a positive effect on recruiting or retention, but multiple sources confirmed that commissaries and exchanges are considered by many to be a relevant and important contributor to military quality of life.

A consolidated resale organization, with combined resources, increased operational flexibility, and better alignment of incentives and policies, would improve the viability and stability of these systems. It would sustain the benefit while reducing the combined reliance on appropriated funding over time. The increased flexibility and opportunities available to a consolidated organization could enable a deeper level of cooperation to improve quality and drive the efficiencies recommended by numerous studies. The many similarities, overlaps, and redundancies in processes, staffing, and support infrastructures favor the consolidation process. Establishing an executive structure and means of oversight that ensures alignment with the needs and goals of Service members and the Military Services is critical.

Recommendations:

- A single organization should be established that consolidates DoD's commissaries and three exchange systems into a single defense resale system, herein referred to as the Defense Resale Activity (DeRA).

- A DeRA Executive Director should be appointed who reports to a consolidated and simplified BOD. The BOD should replace the boards that currently oversee each of the separate exchange systems and DeCA. The consolidated DeRA BOD should also assume the responsibilities of the Executive Resale Board and the Cooperative Efforts Board and should incorporate expertise from private-sector retail. Supporting committees should be established and empowered as needed.

- A DeRA executive team, along with operational advisors from the current organizations, should immediately be established to define the key attributes of the new organization and plan the transition. This discussion should include a consideration of the recommendations made in this Report and in other consolidation studies. Creation of a single organization should facilitate consolidation of many back-end operation and support functions, alignment of incentives and policies across commissaries and exchanges, as well as consistent implementation of best practices for aligning with the needs of Service members and the Military Services. Core commissary and exchange benefits should be maintained at military installations around the world by continuing the sale of groceries and essential items at cost (plus a surcharge)

[727] *See* e.g., S. 2289, 113th Congress, National Defense Authorization Act for FY 2015, § 907, accessed October 27, 2014, http://www.gpo.gov/fdsys/pkg/BILLS-113s2289is/pdf/BILLS-113s2289is.pdf.

and other merchandise at a discount. Under the combined organization, some or all commissary staff could be converted from APF to nonappropriated funds (NAF) employees to reduce commissary employee costs.

- The branding of the current exchange systems and commissaries initially should be retained. A director for each of these branded exchange systems and the commissaries should be appointed under the DeRA Executive Director. These directors should oversee operation of these systems as needed to represent the unique needs of each military service. Personnel evaluations for these executives should be cosigned by the DeRA executive director and appropriate Service representatives. Branding and organizational structure can be modified over time by the BOD.

- DeRA should assume responsibility for the operation of exchanges but not the other organizations currently managed by NEXCOM and MCCS. If approved by the BOD, the current points of integration and shared resources can be maintained through liaison positions and formal memoranda of agreement. For example, if it is mutually advantageous to share support staff between DeRA and Marine Corps MWR, options are available to continue the arrangement that currently exists with the MCX.

- A portion of Military Service MWR programs should continue to be funded from DeRA profits. The BOD should approve the amount of net revenue to be contributed as MWR dividends and should ensure an equitable distribution among the Military Services.

- Laws and policies should be updated to reflect this consolidated structure and allow greater flexibility related to how products are sourced, where they are sold, and how they are priced, as noted below:

  - Allow the sale of convenience items in commissaries at a profit, including products and services typically found in commercial grocers. Food and other essential items should continue to be sold at cost when sold in commissaries or combined commissary and exchange stores (excluding convenience stores). This expanded commissary product line would include beer and wine, but those sales must align with DoD's efforts to deglamorize alcohol and reduce its abuse.

  - Allow for the payment of second destination transportation costs with NAF. Allow significant flexibility on local sourcing overseas, particularly when it is beneficial to the Service member.

  - Allow more flexibility in the creation of combined stores, as currently controlled by Section 2488 of Title 10 of the U.S. Code.

  - Allow the use of the commissary 5 percent surcharge for similar expenses in the exchanges. Conversely, allow the use of exchange profits to cover commissary costs currently covered by the surcharge.

  - Adjust policies on the sale of "brand name" groceries in commissaries to better accommodate the sale of private-label products.

Implementation:

- 10 U.S.C. Chapter 147 governs the activities of the commissary and exchange systems, as well as other MWR entities. It should be amended throughout, with section and sub-section headings changed to reflect the consolidation of the several exchanges and the commissary system, and statutory text amended as follows:

  - 10 U.S.C. § 2481 should be amended to make clear that commissary and exchange stores may be combined into single stores, and that commissary stores or the commissary sections of combined stores must still sell grocery items at reduced prices. It should also state that the Secretary of Defense will designate the defense resale system's executive director and the DeRA BOD described above.

  - 10 U.S.C. § 2483 should be amended to authorize the defense resale system to receive appropriated and nonappropriated funds, and to use nonappropriated funds generated by the system to cover the expenses of operating the system.

  - 10 U.S.C. § 2484 should be amended to state that the commissaries' requirement to sell items at reduced prices should be limited to the following categories of items: (A) Meat, poultry, seafood, and fresh-water fish. (B) Nonalcoholic beverages. (C) Produce. (D) Grocery food, whether stored chilled, frozen, or at room temperature. (E) Dairy products. (F) Bakery and delicatessen items. (G) Nonfood grocery items.[728]

  - 10 U.S.C. § 2485 should be amended to establish the DeRA BOD described above, granting the Secretary of Defense the authority to establish the board, which should include five voting members—a senior representative from each Military Service and the Under Secretary of Defense for Personnel and Readiness—as well as nonvoting members with experience related to logistics military personnel and entitlements, and other relevant areas. The section should also be amended to allow the Secretary to assign a limited number of active-duty Service members to the defense resale system, when necessary, including to serve as the Executive Director.

  - 10 U.S.C. § 2487 should be amended to eliminate references to the separation of commissaries and exchanges and disestablish the Defense Commissary Agency.

  - 10 U.S.C. § 2488, which sets forth limited conditions under which commissary and exchange stores may be combined, should be repealed.

- Any other regulations (including the Code of Federal Regulations, if applicable), instructions, directives, or internal policies necessary to conform to the recommendation described above should be reissued, updated, amended, retracted, or otherwise changed as needed.

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[728] Nonfood grocery items are further defined in DoD Commissary Program, DoDI 1330.17 (2014), Enclosure 4, 28-29. In conjunction with the consolidation of commissaries and exchanges, the Commission recommends redefining nonfood grocery items to specifically include categories of personal health such as aspirin and diapers, omitting beauty products such as makeup and perfume.

RECOMMENDATION 10: IMPROVE ACCESS TO CHILD CARE ON MILITARY INSTALLATIONS BY ENSURING THE DEPARTMENT OF DEFENSE HAS THE INFORMATION AND BUDGETING TOOLS TO PROVIDE CHILD CARE WITHIN 90 DAYS OF NEED.

Background:
DoD Child Development Programs (CDPs) are intended to "support the mission readiness, family readiness, retention, and morale of the total force,"[729] as well as "reduce the stress of families who have the primary responsibility for the health, safety, and well-being of their children and help them balance the competing demands of family life and the DoD mission."[730] To achieve these outcomes, DoD offers child care services for children from birth through 12 years of age on a full-day, part-day, short-term, or intermittent basis.[731] Children are eligible for care if their sponsors are active-duty military, DoD civilian employees paid from either appropriated funds (APF) or nonappropriated funds (NAF), Reserve Component military personnel on active-duty or inactive-duty training status, combat-related wounded warriors, surviving spouses of Service members who died from a combat-related incident, those acting in loco parentis for the dependent child of an otherwise eligible patron, eligible employees of DoD contractors, or others as authorized on a space available basis. Special rules apply to unmarried and legally separated parents.[732]

Child care services are currently delivered through DoD facilities, including 768 child development centers (CDCs) and 293 school-age care (SAC) facilities; more than 3,000 private homes associated with family child care (FCC) programs; and DoD-approved private-sector programs that participate in community-based child care arrangements.[733] Standards and oversight are in place to ensure basic health, safety, and quality of the delivery options, each of which offers different advantages to DoD and to military families. DoD child care programs on military installations must be nationally accredited and meet DoD certification standards.[734] DoD supported off-installation programs are required to be licensed by state authorities, meet background check requirements, and meet DoD standards or be nationally accredited.[735] DoD certifies each program,[736] conducts inspections[737] and background checks,[738] and imposes limits on the ratio of child care staff to children, as well as the size of groups.[739] Child care costs are subsidized to support affordable, systemwide

[729] Child Development Programs (CDPs), DoDI 6060.02, 2 (2014). (Note: The DoDI 6060.02, Child Development Programs, was updated August 5, 2014. Information in this recommendation reflect changes made since the publication of the Interim Report.)
[730] Child Development Programs (CDPs), DoDI 6060.02, 2 (2014).
[731] Ibid, Enclosure 3, 15 (2014).
[732] Ibid, 2-3 (2014).
[733] Ibid, Enclosure 3, 15, 27 (2014). Numerical information provided by Office of the Deputy Assistant Secretary of Defense, Military Community and Family Policy, e-mail to MCRMC, October 7, 2014.
[734] Ibid, Enclosure 3, 19, (2014).
[735] Ibid, Enclosure 3, 18 and 27 (2014).
[736] Ibid, Enclosure 3, 18 (2014).
[737] Child Development Programs (CDPs), DoDI 6060.02, Enclosure 3, 18 (2014).
[738] Ibid, 15.
[739] Ibid, 46.

fees based on total family income (TFI).[740] DoD specifies that the amount of APF used to operate CDPs shall be no less than the amount collected through child care fees.[741]

Each Military Service and installation determines the type and mix of child care services that best meets the needs of its military families at each location.[742] Table 15 provides a snapshot of child care capacity across the various Military Services and delivery methods as of September 2014.[743] In CDCs and SAC facilities, these figures represent the number of physical spaces available. The capability to deliver services to a child requires both an appropriate physical space and adequate staffing. The number of children served by a space can vary with the type of care provided (e.g., full-time, part-day, short-term, intermittent).

Table 15. Child Care Spaces by Service as of September 2014

	Army	Navy	Air Force	USMC	DoD Total
CDC	27,561	18,599	22,952	6,629	**75,741**
SAC	12,351	11,174	11,021	2,049	**36,595**
FCC	4,050	11,502	3,588	1,022	**20,162**
Community-based	20,807	5,512	2,153	945	**29,417**
TOTAL	**64,769**	**46,787**	**39,714**	**10,645**	**161,915**

When military child care is requested but not available, the child is placed on a waiting list and assigned a priority based on the status of the family's sponsor.[744] The priority system has four levels and provides priority to sponsor groups such as single or dual active-duty Military Service members, combat-related wounded warriors, sponsors with spouses employed full-time or actively seeking employment outside the home, and sponsors with spouses enrolled in an accredited post-secondary institution.[745]

For additional information on military child care, please see the Report of the Military Compensation and Retirement Modernization Commission: Interim Report *(Section 5.1.9.2.1).*

Findings:
In FY 2013, military child care served approximately 200,000 children ages 12 and younger.[746] Child care is an important element of family readiness and well-being, and is a critical supplement to other forms of care, such as private-sector child care, parental and family care, and cooperative care. The military child care network often

[740] Ibid, 27-28.
[741] Ibid, 15. Exceptions are made for certain child development centers operating under a long-term facility's contract or lease-purchase agreement.
[742] Ibid, Enclosure 2, 9-12. *See also* Princeton University and the Brookings Institution, "The Future of Children," *Military Children and Families*, 23, no. 2, (2013), 84, accessed on November 10, 2014, http://futureofchildren.org/futureofchildren/publications/journals/article/index.xml?journalid=80&articleid=587.
[743] Department of Defense Office of Personnel and Readiness, *Annual Summary of Program Operations for FY13*, provided in an e-mail from OSD P&R, October 7, 2014.
[744] Child Development Programs (CDPs), DoDI 6060.02, Enclosure 3, 14 (2014).
[745] Ibid. *See also* the Child, Youth, and School Support Services section of *The Report of the Military Compensation and Retirement Modernization Commission: Interim Report* (Section 5.1.9.2.1).
[746] Department of Defense, *Annual Report to the Congressional Defense Committees on Plans for the Department of Defense for Support of Military Family Readiness, Fiscal Year 2013*, 8, accessed December 21, 2014, http://www.militaryonesource.mil/12038/MOS/Reports/FY2013-Report-MilitaryFamilyReadinessPrograms.pdf.

offers services with convenient locations for those living or working near military installations; flexibility to support demanding military schedules; a staff understanding of military lifestyles; and, in many cases, lower fees.

Of the input received through the Commission's survey, town halls, and other meetings, many Service members and families were complimentary of the quality of military child care. They did, however, frequently express concern about an insufficient number of overall spaces to meet the local demand or unavailability during evenings, nights and weekends.

> *I think there should be more child-care slots provided as more members often have working spouses or single-parents.*[747]

> *Regarding child care, the child development centers on base are wonderful and the staff is very loving and nurturing toward the children. My complaint is that at bases with 24-hour operations, there are no 24-hour child care facilities, limited local options, and no family child care homes willing to care for children on nights, weekends, or overnight when active-duty parents have to work. Military parents who are shift workers have to find nannies or some form of alternative care for their children, which is a huge additional expense that is not factored in and a huge stressor.*[748]

At many locations, the demand for military child care exceeds the supply, resulting in waiting lists and associated waiting times. This situation is particularly true for young children. Even though most military parents choose options other than military child care,[749] as of September 2014, DoD reported that there were more than 11,000 children on waiting lists.[750] It is important to note, however, that the waiting list numbers may not accurately reflect unmet demand. Factors such as duplicative entries (i.e., families placing their child's name on multiple, uncoordinated waiting lists) and inefficient updating of the list to remove the names of children who no longer require service can inflate these numbers. Waiting lists can also understate the true demand in situations in which parents who desire military child care instead pursue other options and do not add their child's name to a list due to long waiting times.

Despite these inaccuracies, some general conclusions may be drawn. Waiting lists are generally longer for young children. Based on the September 2014 data, a disproportionate number of children on waiting lists are ages 3 and younger (73 percent).[751] There are multiple factors that could explain this high percentage:

- Evidence indicates that private-sector child care does not provide spaces for infants and toddlers proportional to the demand.[752] According to the National

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[747] MCRMC letter writer, comment form submitted via MCRMC web site, May 2014.
[748] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[749] According to the 2012 Demographics of the Military Community, there were nearly 1 million children of AC Service members 12 years old or younger, and more than half a million who were 5 years old or younger. *See* Department of Defense, *2012 Demographics: Profile of the Military Community.* As reported in the Annual Summary of Program Operations for FY13, provided by Office of the Under Secretary of Defense for Personnel and Readiness, e-mail to MCRMC, October 7, 2014. DoD Child Development programs in FY 2013 provided 161,915 spaces serving more than 200,000 children (12 years old or younger).
[750] Office of the Under Secretary of Defense for Personnel and Readiness, e-mail to MCRMC, September 9, 2014.
[751] Ibid. Of 10,979 children on waiting lists between ages 5 or younger, 8035 were ages 3 and younger.
[752] National Association of Child Care Resource & Referral Agencies, *Making Quality Child Care Possible: Lessons Learned from NACCRRA's Military Partnerships*, accessed November 10, 2014, http://www.naccrra.org/sites/default/files/default_site_pages/2011/lessons_learned_report_2008.pdf.

Association of Child Care Resource & Referral Agencies, based on data provided by child care resource and referral agencies and an analysis of 32 states, "only 20 percent of child care spaces are for infants and toddlers...In contrast, 48 percent of all requests for child care referrals are for infant and toddler care, and data collected by the U.S. Census Bureau show that 57 percent of all mothers return to work by the time their children are a year old."[753]

- The private sector typically charges more for children younger than 3 years of age than it charges for older children.[754] Because military child care fees do not vary with age, the military option is more likely to be less expensive than the private sector for younger children. The average annual cost of full-time care for an infant in private-sector, center-based care ranges from $4,863 in Mississippi to $16,430 in Massachusetts.[755] The maximum annual cost for DoD CDCs ranges from $3,328 to $7,696, depending on TFI.[756]

- Despite a history of longer waiting lists for the youngest children, military child care spaces tend to be evenly distributed across the age groups, or slightly biased toward older children. For example, guidelines provided to Army garrison commanders recommend allocating 30 percent of spaces to children younger than age 2[757] (who represent approximately 35 percent of military children younger than age 6, according to the 2012 DoD demographics report).[758]

- From a financial perspective, costs are reduced and revenues are increased when fewer spaces are allocated to younger children. This situation occurs because older children have a lower required ratio of staff to children and tend to come from military families with higher income, who pay higher fees. Basing fees on TFI offers the greatest benefit to the most financially vulnerable military families. However, it can financially discourage provision of more spaces for younger children. A direct care staff member can generate between $11,232 and $49,920 more in fees per year (depending on the TFI of the parents), when caring for the maximum allowed number of 5-year-olds as compared to the maximum number of infants.[759] Assuming that older children tend to have older parents with higher military income, the potential increase in fee revenue moves toward the higher end of this range. If that same staff member is caring for kindergarten or school-age children, the allowed ratios are even higher (15 children per staff), and the ability to generate additional fees is also higher (between $19,968 and $73,008 additional annual revenue per staff member depending on the TFIs).

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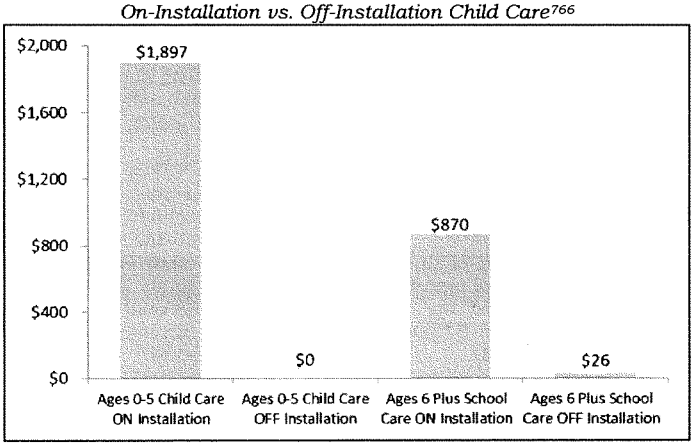
[753] Ibid, 24.
[754] Child Care Aware, *Parents and the High Cost of Child Care 2013 Report*, Appendix 1, 40-41.
[755] Ibid, 14, 40–41.
[756] Based on the School Year 2014-2015 fee schedule, assuming care for 52 weeks per year. This is a maximum because it assumes the high end of all fee ranges and includes a market adjustment fee for high cost markets. For the fee schedule, see Stephanie Barna, Acting Assistant Secretary of Defense for Readiness and Force Management, *Memorandum: Department of Defense (DoD) Child Development Program Fee Ranges for School Year (SY) 2014-2015*, August 8, 2014.
[757] Department of the Army, *Child Care 101*, 2007.
[758] Department of Defense, *2012 Demographics: Profile of the Military Community*.
[759] The stated range in revenue assumes that the same direct-care staff member, based on maximum DoD care ratios, can care for four infants or 12 preschool children (age 5). This is based on DoD maximum staff-to-child ratios as found in Child Development Programs (CDPs), DoDI 6060.02, 38 (2014). To calculate the maximum difference, it was assumed that all infants are from the lowest TFI category and all preschool children are from the highest TFI category. The opposite approach was used to calculate the minimum difference. Similarly, when a range in fees is permitted, the minimum or maximum fees were selected to produce the minimum and maximum differences. Local market exceptions, which are sometimes permitted, were not included in this calculation.

- Although the salaries of direct care staff are primarily paid from fees, most support costs are paid using APF. The APF cost of providing a preschool (5-year-old) space is significantly lower than the cost for an infant space. An estimate from 2010 showed the annual APF cost for a preschool space ($2,484), to be approximately one-third the cost of an infant space ($8,545).[760] Similarly, the annual APF cost for a school-age space ($1,427) was approximately one-sixth the APF cost of an infant space.[761] These financial incentives can also be seen in the budget request and justification process. When quantifying the expected benefit of additional funding, or assessing the impact of proposed budget cuts, the number of children affected increases if the provided services are calculated using average costs biased by older children.

The Commission's survey also pointed to higher demand for child care services for younger children.[762] The survey's results showed that respondents most valued child care spaces serving children 5 years old and younger in on-installation settings.[763] Figure 22 shows the weighted dollar values provided by respondents for on-installation and off-installation care. Respondents rated on-installation care for children ages 5 and younger as more than twice as valuable as similar care for children ages 6 and older.[764] Respondents rated off-installation care for both age groups as substantially less valuable.[765]

Figure 22. Active-Duty Service Members' Perceived Value: On-Installation vs. Off-Installation Child Care[766]



[760] Department of Defense, *Deputy Secretary of Defense, Annual APF Cost per Center Space Estimated by Age of Child*, PBD 023.
[761] Ibid.
[762] Survey results, MCRMC survey, July 1, 2014 to October 10, 2014.
[763] Ibid.
[764] Ibid.
[765] Ibid.
[766] Ibid. This figure displays the average amount in dollars that survey respondents valued compensation alternatives. Presentation in dollar values allows the value of compensation features to be directly compared.

Although waiting lists are important indicators of the unmet demand, waiting times are more important to parents than the number of names ahead of them on the list, because it is on the basis of waiting times that families typically make decisions about employment, education, and alternate forms of care. Recognizing the importance of waiting times, DoD established a goal to provide care across all age categories within 90 days of need.[767] Waiting times are currently not reliably tracked and are not consistently available.[768] The Army confirmed that the 90-day goals were not being met for young children, citing 6- to 9-month waiting times for infants and 3- to 5-month waits for toddlers.[769] It also reports "freezing" waiting lists at 75 percent of their locations until temporary staffing measures, like asking managers to provide direct care, can be reversed.[770] In some cases, this means that new names are not being added to the waiting lists. The Navy confirmed that the average waiting time for infants was 3 to 5 months, but cautioned that the manual methods used to track and report this data may affect its accuracy.[771] The Air Force does not consistently collect or track waiting time data, but was able to provide data for one of its large overseas child care programs. For that location the waiting times for toddlers stand out as being particularly long, up to 7 months.[772] Although not tracked everywhere, the 90-day service goal for child care is formally tracked at joint bases, as part of their common output level standards.[773] As of second quarter FY 2014, only five of 12 joint bases reported meeting the 90-day service standard.[774] Not only do most joint bases not meet the goal, the average waiting time across all 12 bases exceeded the 3-month goal.[775]

DoD is currently fielding MilitaryChildCare.com, an online system for managing child care waiting lists. Among other capabilities, this tool allows parents to see all available DoD-supported child care options in a chosen area, place their child's name on multiple waiting lists, and receive an estimated placement date (waiting time) for each option. If fielded and operated as planned, within 2 years this tool would provide a standardized approach to documenting and tracking waiting times.[776] Based on data from five pilot sites,[777] this system reportedly reduced waiting lists by 12 percent and reduced waiting times by 30-45 days through elimination of duplicative counting, improvements in waiting list management, clearer presentation of options to parents,

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[767] Based on information provided by Office of the Deputy Assistant Secretary of Defense for Military Community and Family Policy, e-mail to MCMRC, October 23, 2014. Common output level standards (COLS) are contained in the Cost & Performance Visibility Framework Handbook for Joint Basing, an online resource for joint installation commanders. The authority to establish COLS originated with the Initial Guidance for BRAC 2005 Joint Basing implementation. Note that placement includes approved child development programs on and off the joint base, and in authorized FCC homes. Once a viable option has been offered, this standard has been met.
[768] Office of the Under Secretary of Defense for Personnel and Readiness, e-mail to MCRMC, September 9, 2014.
[769] Ibid.
[770] Ibid.
[771] Office of the Under Secretary of Defense for Personnel and Readiness, e-mail to MCRMC, September 30, 2014.
[772] Office of the Under Secretary of Defense for Personnel and Readiness, e-mail to MCRMC, September 9, 2014.
[773] Based on information provided by Office of the Deputy Secretary of Defense, Military Community and Family Policy, e-mail to MCMRC, October 23, 2014. Common output level standards (COLS) are contained in the Cost & Performance Visibility Framework Handbook for Joint Basing, an online resource for joint installation commanders. The authority to establish COLS originated with the Initial Guidance for BRAC 2005 Joint Basing implementation. Note that placement includes approved child development programs on and off the joint base, and in authorized FCC homes. Once a viable option has been offered, this standard has been met.
[774] Second Quarter FY 2014 Cost and Performance Visibility Framework (CPVF) Report Card, Child and Youth COLS number 1: 100% of children are placed within 3 months of request, provided by the Under Secretary of Defense for Personnel and Readiness, e-mail to MCRMC, October 28, 2014.
[775] Ibid.
[776] Office of Commander, Navy Installations Command, e-mail to MCRMC, January 7, 2015.
[777] Pilot sites included Navy and USMC installations in Hawaii, Navy installations in metro San Diego, Key West, and Bahrain, and Nellis Air Force Base in Nevada.

and more efficient purging of expired requests.[778] Although MilitaryChildCare.com currently estimates placement dates (waiting times) using historical averages, there are plans to incorporate a more sophisticated inventory management model based on a projection of available resources.[779]

Even when demand is reliably measured and monitored, and the DoD budget supports expanding child care capabilities, responding to that demand with appropriate facilities and staff in a timely fashion can be challenging. DoD offers competitive wages and emphasizes the importance of a career path for those who start as direct care providers;[780] however, difficulties finding and hiring interested staff members, and the time required for mandated security checks, may inhibit the expansion of services and sometimes result in available space sitting idle.[781] The Commission heard from DoD Child and Youth Program managers that position descriptions for direct care staff do not accurately reflect the duties and responsibilities required. This mismatch between position descriptions and performance expectations sometimes results in staff resignations.[782] Another challenge to meeting the demand for child care occurs when DoD or the Services implement a civilian personnel hiring freeze. In 1991 and 2013 DoD announced civilian personnel hiring freezes that included child care staff, but later issued exemptions to meet the staffing requirements of the Military Child Care Act of 1989.[783]

From a space perspective, CDC and SAC facilities must meet Occupational Safety and Health Administration requirements as well as DoD configuration requirements.[784] Reconfiguring or expanding existing facilities, as well as building new facilities to meet new or changing demand, can require military construction (MILCON) funding. MILCON funding may also be required to reconfigure leased spaces, which can be a preferred alternative from the perspectives of speed and flexibility for providing space. MILCON funds are limited and managed in a way that can result in lengthy approval and funding allocation processes, inhibiting responsiveness to changes in child care demand. As an alternative, in 2006, the Congress authorized the Secretary of Defense to establish a temporary program to engage in unspecified minor military construction projects, using operation and maintenance funds to construct new CDCs and improve or expand existing ones. Using this authority, DoD increased child care capacity by more than 10,000 spaces before the authority expired in FY 2009.[785]

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[778] Office of the Under Secretary of Defense for Personnel and Readiness, e-mail to MCRMC, September 9, 2014.
[779] Ibid.
[780] *See* Armed Forces, 10 U.S.C. § 1792(c). *See* Armed Forces, 10 U.S.C. § 1800(3).
[781] Office of the Under Secretary of Defense for Personnel and Readiness, e-mail to MCRMC, September 9, 2014.
[782] Department of Defense and Services Child Development Program Managers, discussion with MCRMC Quality of Life staff, August 8, 2014.
[783] Department of Defense, *Secretary of Defense Memorandum, Military Child Care Hiring Allocations, August 6, 1991*, 17, accessed December 4, 2014, http://www.dod.mil/pubs/foi/Personnel_and_Personnel_Readiness/Personnel/417.pdf. General Accounting Office, *Defense Budget Issues: Effect of Civilian Hiring Freeze on Fiscal Year 1991 Budget, GAO Report, 5*, accessed December 21, 2014, http://www.gao.gov/assets/80/77823.pdf. "MCOM Plans To Fill Critical Support Jobs, Despite Army-Wide Hiring Freeze," *Stars and Stripes*, (January 31, 2013), http://www.stripes.com/news/imcom-plans-to-fill-critical-support-jobs-despite-army-wide-hiring-freeze-1.205957. *See also* Department of Defense Authorization Act of 1989, Pub. L. No. 101-189, 103 Stat. 1352 (codified as amended at Armed Forces, 10 U.S.C. §§ 1791-1798 (1999)).
[784] Child Development Programs, DoDI 6060.02, Enclosure 3, 30-31 (2014). *See also* Department of Defense, *Policy Memorandum on Department of Defense Unified Facilities Criteria*, May 29, 2002, *See also* Department of the Army, Policy Memorandum, *Army Standard for Child Development Center* (October 2004).
[785] National Defense Authorization Act for FY 2006, Pub. L. No. 109-163 § 2810 (2006). The authority originally expired in 2007, but was extended until 2009, when it was allowed to expire. *See* National Defense Authorization Act for FY 2008, Pub. L. No. 110-181 § 2809 (2008). *See also* Armed Forces, 10 U.S.C. § 2805.

Conclusions:
Military child care is widely acclaimed for its quality and affordability, but is frequently a source of frustration for military families because of its limited availability. While not intended to serve the needs of all military children and families, DoD child care is often the preferred option for military families, addressing the unique challenges of military lifestyles, and providing support that can be critical to the psychological and financial health of the families who need it most. In particular, it can improve family and Service member readiness, yielding an improved ability to cope with demanding schedules, extended deployments, and frequent moves, far away from extended family. The priority system emphasizes care for sponsor groups like single and dual active-duty parents and the means-tested fees reduce the financial burden for the most financially vulnerable families. These prioritization and fee strategies help focus delivery of services to families who are more likely to need assistance, but if the total demand is not reasonably and consistently met, it can become a source of dissatisfaction for some, and worse, a source of family hardship for others, possibly leading to performance and readiness issues.

Current models for planning and resourcing full-time military child care can result in long waiting times, particularly for children who are 3 years old and younger, the ages for which care is typically most expensive and least available from other sources. Service members and their families have communicated to the Commission that the long waiting times sometimes results in situations where they cannot afford alternatives, find it difficult to meet demanding military work schedules, and have to forgo opportunities for spouse employment or education. Although DoD policy clearly states that its child care services are not an entitlement[786] and not every military parent wants or needs military child care, unavailability of this benefit for those who do was an often cited source of frustration affecting quality of life and willingness to serve or accept certain assignments. These effects can be amplified if Service members are frequently relocated to meet the needs of the Military Services, and repeatedly end up at the bottom of long waiting lists with waiting times that consume a substantial portion of their period of assignment.

Recommendations:

- DoD should immediately establish mandatory, standardized monitoring and reporting of child care wait times, disaggregated by age groups, across all types of military child care. This reporting is needed to evaluate performance against the DoD goal of providing care within 90 days of need.

- DoD should implement the changes contained in the proposed rule for Background Checks on Individuals in DoD Child Care Services Programs, published in the Federal Register on October 1, 2014.[787]

- The Secretary should direct that APF and NAF child direct care and professional staff are exempt from future departmental hiring freezes and furloughs.

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[786] Child Development Programs (CDPs), DoDI 6060.02, 2 (2014).
[787] Under Secretary for Defense for Personnel and Readiness, *Proposed Rule: Background Checks on Individuals in DoD Child Care Services Programs*, accessed December 21, 2014, http://www.gpo.gov/fdsys/pkg/FR-2014-10-01/pdf/2014-23061.pdf.

- DoD should revise child and youth direct care staff position descriptions for staff in CC-2 through CC-5 positions to more accurately describe the requirements and responsibilities of these positions.

- The Congress should reestablish the authority to use operating funds for minor construction projects when creating new, expanding, or modifying CDP facilities serving children from birth to 12 years of age with an emphasis on adding spaces for children ages birth to 3. This authority should allow projects up to $15 million. This proposal has no direct effect on APF as this legislation only grants the associated authority. A budgetary impact would only occur if the Military Services chose to fund construction projects under this authority.

Implementation:

- 10 U.S.C. § 2805 governs unspecified minor military construction. 10 U.S.C. § 2805 should be amended to raise the threshold for minor military construction to $15 million, when the minor military construction project is to create a new child development facility or to expand or modify an existing child development facility.

- 10 U.S.C. Chapter 88, Subchapter II, governs military child care. No change to this governing statute is recommended.

- Any other regulations (including the Code of Federal Regulations, if applicable), instructions, directives, or internal policies necessary to conform to the recommendation described above should be reissued, updated, amended, retracted, or otherwise changed as needed. Such as:

  - DoD Instruction 6060.02 should be amended to require annual reporting by each installation managing CDPs. The reports should include, by age group and by location, 1) the number of persons on each waiting list at the time of the report; 2) the average length of time spent on the waiting list over the previous year; and 3) the total number of persons over the previous year whose time on the waiting list exceeded DoD's 90-day goal with planned or recommended remediation actions. DoD should implement the changes contained in the proposed rule for Background Checks on Individuals in DoD Child Care Services Programs, published in the Federal Register on October 1, 2014. The Secretary should amend DoD policy to identify APF and NAF child direct care and professional staff as essential personnel and exempt such staff from any and all future hiring freezes and furloughs.

  - DoD should revise its official descriptions of child and youth direct care staff position descriptions for positions CC-2 through CC-5, to more accurately describe the requirements and responsibilities of these positions.

RECOMMENDATION 11: SAFEGUARD EDUCATION BENEFITS FOR SERVICE MEMBERS BY REDUCING REDUNDANCY AND ENSURING THE FISCAL SUSTAINABILITY OF EDUCATION PROGRAMS.

Background:
DoD and the Department of Veterans Affairs (VA) provide myriad programs that deliver educational benefits to Service members and veterans. Current education assistance programs include the Post-9/11 GI Bill, the Montgomery GI Bill Active Duty (MGIB-AD), the Montgomery GI Bill Selected Reserve (MGIB-SR), the Reserve Education Assistance Program (REAP), and Tuition Assistance (TA). Key features of these various programs are outlined below.

Post-9/11 GI Bill
Education assistance is available to active-duty members of the military services and veterans with an honorable discharge who have at least 90 days of aggregate service after September 10, 2001, or to individuals who have a minimum of 30 continuous days of service who were discharged due to a service-connected disability.[788] The Post-9/11 GI Bill covers all tuition and fees for in-State students or up to $19,198.31 at private or foreign schools per academic year.[789]

The amount covered varies based on the beneficiary's time in service.[790] A Service member is eligible for 100 percent of the maximum amount payable after 36 aggregate months on active duty.[791] Recipients who are not on active duty and who meet additional eligibility criteria receive a monthly housing stipend equal to the Basic Allowance for Housing (BAH) payable to an E5 with dependents in the same ZIP code as the school.[792] They receive an annual stipend for books and supplies[793] and may also receive a one-time rural relocation benefit payment.[794]

Approved educational programs include graduate and undergraduate degrees, vocational and technical training, on-the-job training, flight training, correspondence training, licensing and national testing programs, entrepreneurship training, and tutorial assistance.[795] Beneficiaries receive up to 36 months of education benefits,[796] which may be used for up to 15 years following separation from active duty.[797] Tuition

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[788] Veterans' Benefits, 38 U.S.C. § 3311. *See also* Pensions, Bonuses, and Veterans' Relief, 38 CFR 21.9520.
[789] Veterans' Benefits, 38 U.S.C. § 3313. *See also* "Education and Training," Department of Veterans Affairs, accessed September 25, 2014,
http://www.benefits.va.gov/gibill/resources/benefits_resources/rates/ch33/Ch33rates080113.asp.
[790] Veterans' Benefits, 38 U.S.C. §§ 3311 and 3313. Pensions, Bonuses, and Veterans' Relief, 38 CFR 21.9520. Pensions, Bonuses, and Veterans' Benefits, 38 CFR 21.9525. Pensions, Bonuses, and Veterans' Relief, 38 CFR 21.9640. *See also* "Federal Benefits for Veterans, Dependents, and Survivors, Chapter 5 Education and Training," Department of Veterans Affairs, accessed June 1, 2014,
http://www.va.gov/opa/publications/benefits_book/benefits_chap05.asp.
[791] Veterans' Benefits, 38 U.S.C. §§ 3311 and 3313.
[792] Veterans' Benefits, 38 U.S.C. § 3313.
[793] Ibid.
[794] Veterans' Benefits, 38 U.S.C. § 3318. Pensions, Bonuses, and Veterans' Relief, 38 CFR 21.9660.
[795] Veterans' Benefits, 38 U.S.C. § 3301(3). *See also* Pensions, Bonuses, and Veterans' Relief, 38 CFR 21.9590. *See also* "Post-9/11 GI Bill," Department of Veterans Affairs, accessed September 25, 2014,
http://www.benefits.va.gov/gibill/post911_gibill.asp.
[796] Veterans' Benefits, 38 U.S.C. § 3312.
[797] Veterans' Benefits, 38 U.S.C. § 3321.

is paid directly to schools, and the housing stipend, book stipend, and rural relocation payment are paid directly to beneficiaries.[798]

The Post-9/11 GI Bill allows Service members, under certain conditions, to transfer their benefits to their spouses or children. Since August of 2009, Service members who have served 6 years and commit to an additional 4 years of service (YOS) may transfer all or a portion of their benefits to a spouse or children.[799] The spouse may use the benefit for up to 15 years after the Service member's last separation from active duty.[800] Dependent children may use the benefit as soon as they attain a secondary school diploma or reach 18 years of age but may not use the benefit after reaching 26 years of age.[801] Children are entitled to the same monthly housing stipend as a separated Service member, equal to the BAH payable to an E5 with dependents in the same ZIP code as the school, as well as a books and supplies stipend.[802] Spouses of separated Service members are also entitled to a monthly housing stipend. Spouses of active-duty Service members do not receive the stipend, making the level of benefit the same as if the Service member were using it himself or herself while on active duty.[803]

MGIB-AD

Education benefits are provided to Service members who first entered active duty after June 30, 1985,[804] have a remaining entitlement under the Vietnam Era GI Bill,[805] were involuntarily separated under the Voluntary Separation Incentive or Special Separation Benefit program,[806] or are Veterans Educational Assistance Program[807] participants who elected to convert to the Montgomery GI Bill during the open window periods.[808] Service members enroll and pay $100 per month for 12 months.[809]

All incoming Service members, except Service Academy graduates and ROTC scholarship graduates, are automatically enrolled unless they choose to opt out.[810] Participants are entitled to receive monthly education benefits once they have completed a minimum of 3 YOS.[811] Effective October 1, 2014, the basic monthly rate for beneficiaries is $1,717.00.[812] This benefit can be used for degree programs, certificate or correspondence courses, cooperative training, independent study programs, apprenticeship or on-the-job training, and vocational flight training

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[798] Veterans' Benefits, 38 U.S.C. § 3313(h).
[799] Veterans' Benefits, 38 U.S.C. § 3319. *See also* Post-9/11 GI Bill, DoDI 1341.13, 11 (2013). *See also* Report of the Military Compensation and Retirement Modernization Commission: Interim Report, 255-256.
[800] Veterans' Benefits, 38 U.S.C. § 3321.
[801] Veterans' Benefits, 38 U.S.C. § 3319(g)(2). *See also* Veterans' Benefits, 38 U.S.C. § 3319(h)(5)(A); Pensions, Bonuses, and Veterans' Relief, 38 CFR 21.9530(e).
[802] Veterans' Benefits, 38 U.S.C. § 3319(h).
[803] Ibid.
[804] Veterans' Benefits, 38 U.S.C. § 3011(a)(1).
[805] Pensions, Bonuses, and Veterans' Relief, 38 CFR 21.7045.
[806] Veterans' Benefits, 38 U.S.C. §§ 3018A-3018B. Pensions, Bonuses, and Veterans' Relief, 38 CFR 21.7045.
[807] Veterans' Benefits, 38 U.S.C. § 3018C.
[808] Veterans' Benefits, 38 U.S.C. § 3018. *See also* Montgomery GI Bill (MGIB) Program, DoDD 1322.16 (2002).
[809] Veterans' Benefits, 38 U.S.C. § 3011(b).
[810] Data provided by Office of the Under Secretary of Defense for Personnel and Readiness, e-mail to MCRMC, September 18, 2014.
[811] Veterans' Benefits, 38 U.S.C. § 3011(b). If the Service member becomes eligible for the Montgomery GI Bill under 38 U.S.C. § 3011(a)(1)(A), then the $100 reduction in pay for 12 months is applicable. Otherwise, it is not.
[812] *See* "Education and Training, Montgomery GI Bill Active Duty (Chapter 30) Increased Educational Benefit," Department of Veterans Affairs, accessed October 2, 2014, http://www.benefits.va.gov/GIBILL/resources/benefits_resources/rates/ch30/ch30rates100114.asp.

programs.[813] Before using these benefits, Service members must complete a high school diploma or the equivalent of 12 semester hours in a program of education leading to a standard college degree.[814] All education benefits are paid directly to Service members.[815]

MGIB-SR

The Montgomery GI Bill is also available to members of the Selected Reserve if they meet the eligibility requirements which include a 4-year obligation to serve in the Selected Reserve, completion of a 2-year obligation as an active-duty Service member, and completion of a high school diploma or equivalency certificate.[816]

REAP

REAP was created in 2004[817] to provide educational assistance to members of the Reserve Component who are called or ordered to active duty in response to a contingency operation as declared by the President or the Congress.[818] To be eligible for benefits, Service members need to have been activated on or after September 11, 2001, for at least 90 consecutive days.[819] Effective October 1, 2014, the basic monthly rate for trainees under REAP is $1,373.60.[820] REAP can be used for college or university degree programs, vocational programs, independent study or distance learning programs, correspondence courses, flight training, on-the-job training and apprenticeship programs, licensing and certification test reimbursement, and entrepreneurship courses.[821]

Tuition Assistance

The Military Services also offer financial assistance for tuition and fees for voluntary, off-duty educational programs in support of Service members' personal and professional goals through TA.[822] TA is available to active-duty Service members, Reservists, and National Guardsmen in an active-duty status.[823] Services may pay all or a portion of tuition and expenses for TA participants.[824] TA was originally created because Service members were not allowed to use their GI Bill benefits while on active duty.[825] Service members can now use Post-9/11 GI Bill benefits while on active duty.[826]

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[813] Veterans' Benefits, 38 U.S.C. § 3014(a) provides that "the Secretary shall pay to each individual entitled to basic educational assistance who is pursuing an approved program of education a basic educational assistance allowance to help meet, in part, the expenses of such individual's subsistence, tuition, fees, supplies, books, equipment, and other educational costs." Veterans' Benefits, 38 U.S.C. § 3002 provides that the term "program of education" has the same meaning as that found in 38 U.S.C. § 3452(b).
[814] Veterans' Benefits, 38 U.S.C. § 3011(a)(2).
[815] Pensions, Bonuses, and Veterans' Relief, 38 CFR 21.7130-21.7144.
[816] Veterans' Benefits, 38 U.S.C. § 3012(a).
[817] National Defense Authorization Act for FY 2005, Pub. L. No. 108-375, § 527 (2004).
[818] Armed Forces, 10 U.S.C. § 16161.
[819] Armed Forces, 10 U.S.C. § 16163.
[820] *See* "Education and Training, Reserve Educational Assistance Program Increased Educational Benefit," Department of Veterans Affairs, accessed October 2, 2014, http://www.benefits.va.gov/GIBILL/resources/benefits_resources/rates/ch1607/ch1607rates100114.asp.
[821] Armed Forces, 10 U.S.C. § 16162(b) states all education assistance programs approved for assistance under the Montgomery GI Bill are approved for REAP.
[822] Armed Forces, 10 U.S.C. § 2007.
[823] Armed Forces, 10 U.S.C. § 2007. *See also* Voluntary Education Programs, DoDI 1322.25, 16-17 (2014).
[824] Armed Forces, 10 U.S.C. § 2007.
[825] "Part V: Chapter 10 - Tuition Assistance Top-up," Department of Veterans Affairs, accessed April 11, 2014, http://www.benefits.va.gov/warms/docs/admin22/m22_4/part05/ch10.htm#s1004.
[826] *See* Veterans' Benefits, 38 U.S.C. § 3311.

For additional information on education assistance, please see the Report of the Military Compensation and Retirement Modernization Commission: Interim Report *(Section 5.8.1).*

Findings:
Education benefits are strong recruiting and retention tools. The 2014 Blue Star Families Military Family Lifestyle Survey determined that approximately 74 percent of Service member respondents indicated they joined the military to receive educational benefits.[827] The number of veterans using GI Bill benefits increased 67 percent, from 564,487 to 945,052 students, between FY 2009 and FY 2012.[828] The Commission's survey indicated tuition assistance was perceived to be more than twice as valuable as quality of life programs such as child care, family support services, and military housing.[829] The Commission also received numerous comments related to the high value that recipients place on education benefits:

> *Post-9/11 GI Bill wonderful benefit.*[830]

> *Post-9/11 GI Bill program is the best education benefit offered by the military. Please do not reduce it.*[831]

> *I am very satisfied with the Post-9/11 GI Bill, and I believe education benefits are extremely important.*[832]

There are substantial duplications between various education programs that are available to Service members. Originally, the Post-9/11 GI Bill did not cover the same education courses as the MGIB,[833] but the Congress has since enacted legislation to align the programs to ensure both cover the same courses.[834] In addition, the amount of education benefits payable under both the Post-9/11 GI Bill[835] and REAP[836] are based on the number of continuous days served on active duty after September 10, 2001. Table 16 compares these programs.[837]

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[827] Blue Star Families, *2014 Military Family Lifestyle Survey, Comprehensive Report*, 31, accessed December 14, 2014, https://www.bluestarfam.org/sites/default/files/media/stuff/bsf_report_comprehensive_reportfinal_single_pages.pdf.
[828] U.S. Department of Veterans Affairs, National Center for Veterans Analysis and Statistics, Education Program Beneficiaries, January 2014. *See also* Lauren Kirkwood, More veterans taking advantage of Post-9/11 GI Bill, McClatchy DC, March 17, 2014. Accessed January 7, 2015, http://www.mcclatchydc.com/2014/03/17/221479_more-veterans-taking-advantage.html?rh=1#storylink=cpy.
[829] Survey results, MCRMC survey, July 1, 2014 to October 10, 2014.
[830] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[831] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[832] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[833] *See* Post-9/11 Veterans Educational Assistance Act of 2008, Pub. L. No. 110-252 (2008), § 5003. The Post-9/11 GI Bill originally did not provide educational benefits for vocational or technical education, unlike the Montgomery GI Bill, but was subsequently amended by Congress in 2009.
[834] *See* Post-9/11 Veterans Educational Assistance Improvement Act, Pub. L. No. 111-377 (2011) § 102.
[835] Veterans' Benefits, 38 U.S.C. § 3311. *See also* Department of Veterans Affairs, *Post-9/11 GI Bill: It's Your Future*, VA Pamphlet 22-09-01, May 2012, accessed September 25, 2014.
[836] Armed Forces, 10 U.S.C. § 16161. *See also* Department of Veterans Affairs, *Reserve Education Assistance Program (REAP): Summary of Educational Benefits under the Reserve Educational Assistance Program*, VA Pamphlet 22-05-1, revised September 2008, 29.
[837] "Education and Training, Comparison Toll and Payment Chart," Department of Veterans Affairs, accessed October 9, 2014, http://www.benefits.va.gov/gibill/comparison_tool.asp.

Table 16. Features of Post-9/11 GI Bill, MGIB, and REAP

	Post-9/11 GI Bill	MGIB	REAP
Minimum Length of Service	90 days active aggregate service (after 9/10/01) or 30 days continuous if discharged for disability (after 9/10/01)	2 year continuous enlistment (minimum duty varies by service date, branch, etc.)	90 days active continuous service (after 9/10/01)
Maximum # of Months of Benefits	36	36	36
How Payments Are Made	Tuition: Paid to school Housing stipend: Paid monthly to student Books & Supplies: Paid to student at the beginning of the term	Paid to student	Paid to student
Duration of Benefits	Generally 15 years from last day of active duty	Generally 10 years from last day of active duty	Generally 10 years from the day student leaves the Selected Reserve or the day student leaves the IRR
Degree Training	Yes	Yes	Yes
Non College Degree Training	Yes	Yes	Yes
On-the-Job & Apprenticeship Training	Yes	Yes	Yes
Flight Training	Yes	Yes	Yes
Correspondence Courses	Yes	Yes	Yes
Licensing & Certification	Yes	Yes	Yes
National Testing Programs	Yes	Yes	Yes
Work-Study Program	Yes	Yes	Yes
Tutorial Assistance	Yes	Yes	No
Yellow Ribbon Program	Yes	No	No
Transferability	Yes	Yes	No
Maximum amount of benefits (full time)	Up to $19,198.31 (not including BAH equal to E5 with dependents)[838]	$15,453.00[839]	$12,362.40[840]

[838] Veterans' Benefits, 38 U.S.C. § 3313. *See also* "Education and Training," Department of Veterans Affairs, accessed September 25, 2014, http://www.benefits.va.gov/gibill/resources/benefits_resources/rates/ch33/Ch33rates080113.asp. Figure shown is per 9-month academic year.
[839] "Education and Training, Montgomery GI Bill Active Duty, Increased Educational Benefit, Effective October 1, 2014," U.S. Department of Veterans Affairs, accessed October 9, 2014, http://www.benefits.va.gov/GIBILL/resources/benefits_resources/rates/ch30/ch30rates100114.asp. Figure shown is per 9-month academic year.
[840] Ibid. Figure shown is per 9-month academic year.

Even though the features of these programs are similar, participants in the various programs received very different levels of benefits. The average Post-9/11 GI Bill benefits paid in FY 2013 was $13,465 per person.[841] The MGIB and REAP average per-participant benefit in FY 2013 was $8,551[842] and $4,028,[843] respectively. Reservists also qualify for Post-9/11 GI Bill benefits at a greater rate than REAP.[844] Although benefits are greater under the Post-9/11 GI Bill, 878,961 Service members have enrolled in the MGIB since 2008, an average of 146,494 per year.[845]

In addition, there are several features of the Post-9/11 GI Bill that are somewhat misaligned with retention goals or with historical implementation of new education benefits. For example, transferability of Post-9/11 GI Bill benefits at 6 YOS plus an additional 4-year commitment means that Service members as young as 24 can transfer their Post-9/11 GI Bill benefits, and may be only 28 when they leave.[846] The average DoD continuation rate from 1980 to 2010 for a Service member at 6 YOS is 35.3 percent,[847] while the average continuation rate for a Service member at 10 YOS is 19.3 percent.[848] Offering transferability at 10 YOS instead of 6 would enable the Services to increase retention at this critical point in a military career. Even though transferability is a very popular benefit, the Commission received a wide variety of comments related to the requirements for earning transferability:

> *I believe that the Post-9/11 GI Bill Education Benefit Transferability should go back to a 6 year requirement instead of the 4 additional years required.*[849]
>
> *Post 9/11 GI bill is spot on, but I would agree for a minimum time in service to receive the benefit of greater than 10 years.*[850]
>
> *If we keep Tuition Assistance, then the transferability of the Post-9/11 GI Bill should require a longer commitment in order to be transferred, say 15 or 20 years.*[851]
>
> *I think post 9/11 GI Bill should be transferable to spouse but not children.*[852]

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[841] Department of Veterans Affairs, *Congressional Budget Submission for FY 2015 Volume III Benefits and Burial Programs and Departmental Administration*, VBA-33.
[842] Ibid.
[843] Ibid.
[844] Department of Veterans Affairs, *Post-9/11 GI Bill: It's Your Future, VA Pamphlet 22-09-01, May 2012*, accessed December 21, 2014, https://www.pritzkermilitary.org/explore/library/online-catalog/view/oclc/823319653. Department of Veterans Affairs, *Reserve Education Assistance Program (REAP): Summary of Educational Benefits under the Reserve Educational Assistance Program*, VA Pamphlet 22-05-1, revised September 2008, 29.
[845] Data provided by Office of the Under Secretary of Defense for Personnel and Readiness, e-mail to MCRMC, September 26, 2014.
[846] Veterans Benefits, 38 U.S.C. § 3319. Post-9/11 GI Bill, DoDI 1341.13, 11 (2013).
[847] Military Continuation Rates DMDC Data–Average from 1980-2010, data provided by DMDC, e-mail to MCRMC, March 2014.
[848] Ibid.
[849] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[850] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[851] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[852] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.

> *I don't think the post 9/11 GI bill should be transferrable. I think dependents should have to earn it themselves or the member who earned it should use it. It's too costly of a benefit to be educating the next generation regardless of their affiliation to the military in their adult years.*[853]

Another issue is a misalignment of Departmental incentives related to transferability. While the policy for transferring benefits to dependents is set by DoD,[854] the VA pays for all Post-9/11 GI Bill benefits including transferred benefits.[855] As a result, DoD allows all Service members who meet the requirements to transfer their benefits,[856] although the law states the Secretary "may" permit transfers but is not required to do so.[857] Between August 2009 and September 2014, there were 423,355 Service members who transferred their Post-9/11 GI Bill benefit to 928,078 dependents.[858] Of the Service members who transferred their benefits, 38.5 percent were officers and 61.5 percent were enlisted Service members,[859] compared to a total force that is 16.4 percent officers and 83.6 percent enlisted.[860] As of August 2014, 52 percent of children who received transferred benefits were younger than age 14 at the time of transfer.[861] Between August 2009 and April 2014 VA paid $5.6 billion for dependents who received transferred benefits.[862] VA does not currently have a robust model for out-year cost projections for the Post-9/11 GI Bill or transferability.[863] The Commission estimates the VA would pay an additional $76.5 billion between FY 2015 and FY 2024 for transferred benefits.[864]

The Post-9/11 GI Bill housing stipend often exceeds the actual housing costs of dependent beneficiaries. For example, in academic year 2013-2014, New School University in New York reportedly had the highest estimated room and board cost in the country at $18,490.[865] The BAH per month for an E5 with dependents in New York City in 2013 was $3,258, and for 2014 it was $3,744.[866] Assuming a 9-month academic year, a student using Post-9/11 GI Bill benefits at New School for 2013-2014 would receive $31,752, which is $13,262 more than the estimated cost of room and board. Northwestern Oklahoma State University in Alva, OK reportedly had the

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[853] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[854] Post-9/11 GI Bill, DoDI 1341.13, 11 (2013).
[855] Veterans Benefits, 38 U.S.C. § 3319.
[856] Information provided by DoD OSD P&R, meetings with MCRMC staff, July 10, 2014, July 18, 2014, and September 8, 2014.
[857] Veterans Benefits, 38 U.S.C. § 3319.
[858] Data provided by Office of the Under Secretary of Defense for Personnel and Readiness, e-mail to MCRMC, September 18, 2014.
[859] Data calculated from information provided by Office of the Under Secretary of Defense for Personnel and Readiness, e-mail to MCRMC, February 6, 2014 and September 18, 2014.
[860] Department of Defense, *2012 Demographics: Profile of the Military Community*, 10.
[861] Data calculated from information provided by Office of the Under Secretary of Defense for Personnel and Readiness, e-mail to MCRMC, February 6, 2014 and September 18, 2014.
[862] Data provided by VBA, CD-ROM to MCRMC, April 14, 2014.
[863] Information provided by VA, VBA, Education officials, meetings with MCRMC staff, March 7, 2014, July 3, 2014, and August 27, 2014.
[864] The Commission created a model for cost-estimate projections, including estimated rates of inflation for education and housing, which historically exceed general inflation. That model produced an estimate of VA expenses beginning at $4.4 billion in FY 2015 and rising to $9.1 billion in FY 2024; the projected expenses totaled $76.5 billion over that span.
[865] Kelsey Sheehy, "10 Colleges That Charge the Most for Room and Board," *U.S. News & World Report*, (October 29, 2013), accessed November 19, 2014, http://www.usnews.com/education/best-colleges/the-short-list-college/articles/2013/10/29/10-colleges-that-charge-the-most-for-room-and-board.
[866] "BAH Calculator," Department of Defense, Defense Travel Management Office, accessed September 25, 2014, http://www.defensetravel.dod.mil/site/bahCalc.cfm.

lowest estimated room and board cost in the United States in academic year 2013-2014, at $3,900.[867] Using the same assumptions, a student using Post-9/11 GI Bill benefits would receive $8,658 in BAH, $4,758 more than the estimated cost of room and board.[868]

The Post-9/11 GI Bill's housing stipend is also inconsistent with other education benefits. Veterans may receive Post-9/11 GI Bill benefits, including the housing stipend, while receiving unemployment compensation.[869] Other VA education programs that provide a living allowance prohibit participants from also receiving unemployment compensation. For example, Section 8525(b) of title 5 U.S.C. prohibits receipt of unemployment compensation by those receiving a subsistence allowance under the MGIB-AD or an educational assistance allowance under the Survivors' and Dependents' Educational Assistance program.

TA was originally created because Service members were not allowed to use their GI Bill benefits while on active duty.[870] Service members can now use TA or their Post-9/11 GI Bill[871] benefits while they are on active duty. In FY 2013 there were 333,001 TA participants taking undergraduate or graduate level courses. Of the FY 2013 participants, 91.2 percent were enlisted personnel, and only 8.8 percent were officers.[872] TA is not restricted to "professional development" courses; Service members may take courses in any area of study.[873] The Government has only limited educational data about recipients of the Post-9/11 GI Bill and TA programs. For example, neither DoD nor VA is currently collecting data on the education level and YOS of Service members transferring their Post-9/11 GI Bill.[874] Schools receiving Federal funds through the Post-9/11 GI Bill and TA are not required to provide information to DoD or VA regarding students using the Post-9/11 GI Bill or TA to pay for education programs.[875] This has led to the inability for DoD and VA to identify schools that may be aggressively and deceptively targeting Service members, veterans, and their families using the Post-9/11 GI Bill and TA.[876]

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[867] Delece Smith-Barrow, "10 Colleges with Low Fees Room and Board," *U.S. News & World Report*, (October 8, 2013), accessed November 19, 2014, http://www.usnews.com/education/best-colleges/the-short-list-college/articles/2013/10/08/10-colleges-with-low-fees-for-room-and-board.
[868] "BAH Calculator," Department of Defense, Defense Travel Management Office, accessed September 25, 2014, http://www.defensetravel.dod.mil/site/bahCalc.cfm.
[869] *See* Government Organization and Employees, 5 U.S.C. § 8525(b), which limits access to federal unemployment benefits by individuals receiving some types of public assistance. The statute does not prohibit those receiving a monthly housing allowance under the Post-9/11 GI Bill from also receiving unemployment insurance.
[870] "Part V: Chapter 10 - Tuition Assistance Top-up," Department of Veterans Affairs, accessed April 11, 2014, http://www.benefits.va.gov/warms/docs/admin22/m22_4/part05/ch10.htm#s1004.
[871] Veterans' Benefits, 38 U.S.C. § 3311.
[872] Data provided by Office of the Under Secretary of Defense for Personnel and Readiness, e-mail to MCRMC, October 15, 2014.
[873] *See* Armed Forces, 10 U.S.C. § 2007.
[874] Information provided by VA VBA staff, meeting with MCRMC, July 3, 2014. Also provided by Office of the Under Secretary of Defense for Personnel and Readiness, phone conversation with MCRMC staff, February 5, 2014.
[875] Such data collection is not required in law under either Armed Forces, 10 U.S.C. § 2007 (which governs tuition assistance) or Veterans' Benefits, 38 U.S.C. Chapter 33 (governing the Post-9/11 GI Bill).
[876] *See* U.S. Senate, Committee on Health, Education, Labor and Pensions, *For Profit Higher Education: The Failure to Safeguard the Federal Investment and Ensure Student Success*, Washington: Government Printing Office, July 30, 2012 ("2012 Report"). *See also* U.S. Senate, Committee on Health, Education, Labor and Pensions, *Benefitting Whom? For-Profit Education Companies and the Growth of Military Educational Benefits*, Washington: Government Printing Office, December 8, 2010 ("2010 Report"). *See also* U.S. Senate, Committee on Health, Education, Labor and Pensions, *Is the New GI Bill Working?: For-Profit College Increasing Veteran Enrollment and Federal Funds*, July 30, 2014.

Conclusions:
Duplicative education assistance programs should be sunset to reduce administrative costs and to simplify the education benefit system. Both MGIB and REAP provide similar benefits to the Post-9/11 GI Bill. Yet Service members are enrolling and paying $1,200 for MGIB, while the Post-9/11 GI Bill is a more valuable benefit for most Service members because there is no enrollment or fees. REAP and the Post-9/11 GI Bill both provide education benefits to activated RC members. Sunsetting MGIB-AD and REAP would also be consistent with historical implementation of new educational programs. In the past, when GI Bills were created, they replaced existing benefits.[877] Such replacement did not take place when the Post-9/11 GI Bill was enacted.[878]

Transferability of Post-9/11 GI Bill benefits should be revised to better promote retention. Increasing eligibility requirements to 10 YOS plus an additional commitment of 2 YOS would encourage younger Service members who leave the Service before 10 years to use their educational benefit for themselves. Increasing the eligibility requirement would also align transferability with the Commission's Recommendation on retirement (see Recommendation 1) and better focus transferability on career Service members.

The value of a transferred Post-9/11 GI Bill benefit should be adjusted to match the value of the benefit when used by the Service member on active duty, thus eliminating the housing stipend for dependents of both active-duty and separated Service members. Beneficiaries who are receiving housing stipends should not also be entitled to unemployment compensation, consistent with other military education programs. TA should be used for professional development, and Service members should use the Post-9/11 GI Bill to pursue personal academic development while on active duty.

DoD and the VA should collect additional information regarding usage of the Post-9/11 GI Bill and TA. It is important to know the education levels of Service members when they leave the Service, as well as the education levels of those Service members who elect to transfer their Post-9/11 GI Bill to their dependents, to better understand the effects of transferability. The VA should collect information related to, but not limited to, graduation rates, course competition rates, course dropout rates, course failure rates, certificates and degrees being pursued, and employment rates after graduation. Educational institutions should be required to provide non-personally identifiable information on students who receive Post-9/11 GI Bill benefits.

Recommendations:

- MGIB-AD should be sunset on October 1, 2015. REAP should be sunset restricting any further enrollment and allowing those currently pursuing an education program with REAP to complete their studies. Service members who switch to the Post-9/11 GI Bill should receive a full or partial refund of the

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[877] Starting with the Servicemen's Readjustment Act of 1944, Pub. L. No. 78-346, 58 Stat. 284 (1944). The Veterans Readjustment Assistance Act of 1952, Pub. L. No. 82-550 (1952) provided for the vocational readjustment and restoration of lost educational opportunities to individuals serving in the Armed Forces after June 26, 1950, and before a date to be determined by the President or Congress. The Veterans' Readjustment Benefits Act of 1966, Pub. L. No. 89-358 (1966) provided an educational assistance program to individuals serving after January 31, 1955, and required that individuals entitled to benefits under both laws elect which benefits they would receive. The Veterans' Education and Employment Assistance Act of 1976, Pub. L. No. 94-502 (1976) was replaced by MGIB in 1985.

[878] *See* Veterans Benefits, 38 U.S.C. Chapter 33.

$1,200 they paid to become eligible for MGIB benefits. The refund should be proportional to the amount of the Post-9/11 GI Bill benefit used.

- Eligibility requirements for transferring Post-9/11 GI Bill benefits should be increased to 10 YOS plus an additional commitment of 2 YOS. This change strengthens transferability as a true retention tool and aligns transferability eligibility to the Commission's Recommendation on retirement.[879]

- The housing stipend for dependents should be sunset on July 1, 2017.

- Eligibility for unemployment compensation should be eliminated for anyone receiving housing stipend benefits under the Post-9/11 GI Bill.

- DoD should track the education levels of Service members leaving the Service, as well as the education levels of Service members who transfer their Post-9/11 GI Bill to their dependents.

- The VA should collect information related to, but not limited to, graduation rates, course competition rates, course dropout rates, course failure rates, certificates and degrees being pursued, and employment rates after graduation, and include that information in an annual report to the Congress.

- Educational institutions should be required to provide non-personally identifiable information on students who receive Post-9/11 GI Bill and TA benefits, when requested by DoD or VA.

Implementation:
MGIB and REAP:

- *MGIB*: 38 U.S.C. Chapter 30 governs the MGIB. The Chapter should be amended to sunset MGIB, restricting eligibility for MGIB benefits to those Service members who have enrolled in the program before October 1, 2015.

- *REAP*: 10 U.S.C. Chapter 1607 governs the REAP program. The Chapter should be amended to sunset REAP, allowing Service members currently receiving REAP benefits to exhaust their entitlement, but transferring all other REAP-eligible Service members to the Post-9/11 GI Bill and barring any further applications for REAP benefits.

- *MGIB and REAP*: Any other regulations (including the Code of Federal Regulations, if applicable), instructions, directives, or internal policies necessary to conform to the recommendation described above should be reissued, updated, amended, retracted, or otherwise changed as needed.

Tuition Assistance:

- *Require TA to be used for "professional development" courses only*: 10 U.S.C. Chapter 101 governs general military training, including TA. 10 U.S.C. § 2007

[879] DoD policy determines the conditions under which Service members may transfer Post-9/11 GI Bill benefits to their dependents, yet the VA actually funds transferred benefits. Although the Commission recognizes a misalignment of departmental incentives in this structure, to avoid subjecting funding for transferred benefits to ongoing DoD budget pressures a recommendation to realign the funding with decision-making was not made.

should be amended to limit TA payments to courses designated as providing "professional development" by the Secretary or his designee.

- Any other regulations (including the Code of Federal Regulations, if applicable), instructions, directives, or internal policies necessary to conform to the recommendation described above should be reissued, updated, amended, retracted, or otherwise changed as needed.

Post-9/11 GI Bill Transferability:

- *Extend the time commitment required to obtain the transferability benefit*: 38 U.S.C. Chapter 33 governs the Post-9/11 GI Bill, including the transferability benefit. 38 U.S.C. § 3319 should be amended to increase the YOS requirement for transferability to 10 YOS, plus a commitment to an additional 2 YOS.

- The Congress should approve a Sense of Congress resolution affirming that DoD and the Military Services may approve or deny requests to transfer post-9/11 GI Bill benefits in such a way that encourages retention of individuals in the Military Services, and recommending that they be more selective in granting transferability of Post-9/11 GI Bill benefits, citing their authority in 38 U.S.C. § 3319(a)(2).

- *Require report on educational attainment of Service members who transfer their education benefit*: 38 U.S.C. § 3325 should be amended to require reporting of information of the highest level of education obtained by individuals transferring their Post-9/11 GI Bill benefits.

- *Require report on education levels of Service members at separation*: 10 U.S.C. § 1142 should be amended to require that information be obtained at time of separation, on the highest level of education attained by a Service member prior to separating from military service, and that the education levels of separating Service members be reported annually to the Congress.

- *End housing stipend payments to dependents using transferred education benefits*: 38 U.S.C. § 3319 should be amended to cease payment of a monthly housing stipend to spouses and children receiving transferred benefits after July 1, 2017.

- Any other regulations (including the Code of Federal Regulations, if applicable), instructions, directives, or internal policies necessary to conform to the recommendation described above should be reissued, updated, amended, retracted, or otherwise changed as needed.

Unemployment Compensation:

- *Unemployment compensation*: 5 U.S.C. Chapter 85 governs the unemployment insurance program, and Subchapter II of that chapter governs unemployment insurance for ex-Service members. 5 U.S.C. § 8525 should be amended to prevent individuals receiving Post-9/11 GI Bill benefits from simultaneously receiving unemployment benefits.

- Any other regulations (including the Code of Federal Regulations, if applicable), instructions, directives, or internal policies necessary to conform to the

recommendation described above should be reissued, updated, amended, retracted, or otherwise changed as needed.

Education Data Collection:

- *Require report on student progress*: Subchapter III of 38 U.S.C. Chapter 33 governs administration the Post-9/11 GI Bill, including data reporting. Subchapter III should be amended to require institutions receiving payments under the Post-9/11 GI Bill to report annually to the Secretary of Veterans Affairs "such information regarding the academic progress of the individual as the Secretary may require." Also, 38 U.S.C. § 3325 should be amended to require the Secretary of Veterans Affairs to include this information in the mandated annual report to the Congress.

- Any other regulations (including the Code of Federal Regulations, if applicable), instructions, directives, or internal policies necessary to conform to the recommendation described above should be reissued, updated, amended, retracted, or otherwise changed as needed.

RECOMMENDATION 12: BETTER PREPARE SERVICE MEMBERS FOR TRANSITION TO CIVILIAN LIFE BY EXPANDING EDUCATION AND GRANTING STATES MORE FLEXIBILITY TO ADMINISTER THE JOBS FOR VETERANS STATE GRANTS PROGRAM.

Background:
On January 31, 2013, seven Executive Branch agencies entered into a Memorandum of Understanding regarding the parties' collaboration on the redesigned Transition Assistance Program for separating Service members.[880] DoD, in partnership with the Department of Labor (DOL), the Department of Veterans Affairs (VA), and the Small Business Administration (SBA), maintains the Transition GPS[881] program to help Service members and their families prepare for a successful transition to civilian life. Transition GPS services are delivered through a series of coordinated workshops administered by each Service. Transition GPS participants receive preseparation counseling, presentations on the Transition GPS core curriculum,[882] briefings on various Transition GPS tracks,[883] a DOL Gold Card[884] and a capstone event that verifies "a viable plan for transition."[885]

Transition GPS tracks are optional, 2-day workshops that Service members may attend to gain transition assistance tailored to their specific interests.[886] These include an education track, for those pursuing or intending to pursue a higher education degree; a technical and skills training track, for those seeking job-ready skills and industry-recognized credentials in shorter-term training programs; and an entrepreneurship track, administered by SBA, called "Boots to Business," which focuses on feasibility analysis for business planning for those wanting to start a business.[887]

Veterans can present their DOL Gold Card at their local One-Stop Career Center (discussed below) to receive enhanced intensive services such as a job readiness assessment, including interviews and testing; creation of an Individual Development Plan; career guidance through group or individual counseling that helps veterans make training and career decisions; information on labor markets and skills transferability that informs educational, training, and occupational decisions; referrals to job banks, job portals, and job openings; referrals to employers and registered apprenticeship sponsors; referrals to training funded by the Workforce Investment Act

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[880] Transition Assistance Program for Separating Service Members, (V62-8) MOU (2013). Parties to the MOU are: DoD, VA, DOL, ED, DHS (USCG), SBA, and OPM. This MOU supersedes the September 19, 2006 TAP MOU.
[881] Although never spelled out in the official program name, the "GPS" in "Transition GPS" represents goals, plans, and success. *See* Implementation of Mandatory Transition Assistance Program Participation for Eligible Service Members, DTM-12-007, 14 (2014).
[882] Transition GPS core curriculum includes workshops on transition overview, military occupation code crosswalk, resilient transitions, financial planning, and VA benefits, and an Individual Transition Plan review. *See* Implementation of Mandatory Transition Assistance Program Participation for Eligible Service Members, DTM-12-007, Attachment 2, 5 (2014).
[883] Implementation of Mandatory Transition Assistance Program Participation for Eligible Service Members, DTM-12-007, Attachment 2, 5-6 (2014).
[884] Ibid, Attachment 3, 8.
[885] Ibid, Attachment 4, 11.
[886] Ibid, Attachment 2, 5. *See also* "Transition Assistance Program (TAP) Information," U.S. Department of Labor, accessed September 30, 2014, http://www.dol.gov/vets/programs/tap/.
[887] Implementation of Mandatory Transition Assistance Program Participation for Eligible Service Members, DTM-12-007, 6 (2014). "Transition Assistance Program (TAP) Information," U.S. Department of Labor, accessed September 30, 2014, http://www.dol.gov/vets/programs/tap/.

or third-party service providers; and monthly follow-ups by an assigned case manager for up to 6 months.[888]

One-Stop Career Centers offer employment services for all job seekers across the country, including veterans, after they have transitioned to civilian life. These facilities are part of state workforce agencies or employment commissions[889] and are partially funded through a number of grants under DOL's Jobs for Veterans State Grants (JVSG) program.[890] "The JVSG program functions mainly as a staffing grant, providing salaries and benefits for state merit employees who provide specialized services to veterans with significant barriers to employment, and in limited circumstances, transitioning Service members who were wounded and injured."[891] The JVSG program funds two distinct positions, the Disabled Veterans' Outreach Program (DVOP) employees[892] and the Local Veterans' Employment Representative (LVER).[893] Services such as job search assistance workshops, career counseling, résumé assistance, and job referrals are provided as a priority to all veterans and eligible spouses.[894] In addition to these core support services, DVOP specialists develop expertise in labor market and employment services that are specifically relevant to disabled veterans[895] and LVERs directly contact businesses, Federal agencies, and associations of contractors and employers to encourage the hiring and advancement of qualified veterans.[896] JVSG programs are currently administered by state departments of labor or their equivalent.[897]

For additional information on transition programs for veterans, please see the Report of the Military Compensation and Retirement Modernization Commission: Interim Report *(Section 5.5.1* and *Section 5.8.4.1).*

Findings:
Although overall veterans' unemployment has remained lower than that of nonveterans during the last two decades,[898] since 2005, veterans age 18 to 24 have consistently had a higher unemployment rate than nonveterans of the same age group. In 2013, veterans age 18 to 24 had an unemployment rate of 21.7 percent, compared to nonveterans of the same age group at 14.3 percent.[899] This trend has the potential to become more severe as active-duty end strength is currently set to draw

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[888] *See* "New Employment Initiative for Veterans," Department of Labor, accessed October 27, 2014, http://www.dol.gov/vets/goldcard.html.
[889] Labor, 29 U.S.C. § 2864(c). Labor, 29 U.S.C. § 2841.
[890] Employees' Benefits, 20 CFR 1001.
[891] Department of Labor, *FY 2014 Congressional Budget Justification, Veteran's Employment and Training Service,* VETS-21.
[892] Veterans' Benefits, 38 U.S.C. § 4103A. Employees' Benefits, 20 CFR 1001.140.
[893] Veterans' Benefits, 38 U.S.C. § 4104. Employees' Benefits, 20 CFR 1001.123.
[894] Veterans' Benefits, 38 U.S.C. § 4215. Employees' Benefits, 20 CFR 1001.101.
[895] Employees' Benefits, 20 CFR 1001, 1001.123.
[896] Department of Labor, *Employment Services for Veterans Brochure.*
[897] Employees' Benefits, 20 CFR 1001.101.
[898] *See* Department of Labor, Bureau of Labor Statistics, Archived BLS News Releases, *Employment Situation of Veterans,* (biennial reports, 1993-2013), accessed November 5, 2014, http://www.bls.gov/schedule/archives/all_nr.htm#VET.
[899] "Economic News Release, Table 2A: Employment status of persons 18 years and over by veteran status, age, and period of service, 2013 annual averages," U.S. Department of Labor, Bureau of Labor Statistics, accessed September 24, 2014, http://www.bls.gov/news.release/vet.t02A.htm.

down from a post-September 11, 2001 high in 2010,[900] increasing the number of veterans who are, or will soon be, in transition.

Inadequate preparations during the Transition GPS program may contribute to the relatively high unemployment rates among separated Service members. Employers seeking to hire veterans often have trouble finding or connecting with qualified veterans.[901] A large company that focuses on hiring veterans stated that veterans who complete Transition GPS do not necessarily have the networking skills to be able to find a job in the private sector.[902] A recent survey on veteran employment challenges revealed that a large majority of recently transitioned Service members identified job-seeking skills as an area where assistance is needed.[903] Veterans would like help with résumé writing, interview skills, and targeting companies for employment. These veterans said networking skills were one of their greatest needs.[904] The same survey revealed that most job seekers believed in-person and online networking to be an effective tool. Actual reported usage of these networking resources is lower than their perceived effectiveness,[905] possibly because of veterans' overall lack of confidence in their skills in this area.

There are still areas of Transition GPS that can be improved.[906] Because of these unemployment rates and improved Federal education benefits provided through the Post-9/11 GI Bill, the number of Service members and veterans furthering their education is at nearly unprecedented levels. The number of veterans using GI Bill benefits increased 67 percent, from 564,487 to 945,052 students, between FY 2009 and FY 2012.[907] A recent survey shows that 44 percent of veterans report either a full-time (30 percent) or part-time (14 percent) student status.[908] Yet the Transition GPS education track is optional, and the parties to the MOU have not performed a joint review of the core curriculum since the program was established.[909] In addition, a Government Accountability Office report examining the metrics used by Transition GPS to measure outcomes such as education or employment after separation concluded the metrics were "incomplete."[910]

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[900] *See* Report of the Military Compensation and Retirement Modernization Commission: Interim Report, 22 (Figure 15, showing decline in active-duty end strength). *See also* National Defense Authorization Act for FY 2014, Pub. L. No. 113-66, § 401 (2013). *See also* "Budget Cuts to Slash U.S. Army to Smallest Since Before World War Two," *Reuters*, accessed October 28, 2014, http://www.reuters.com/article/2014/02/24/us-usa-defense-budget-idUSBREA1N1IO20140224.

[901] Panel discussion, Defense One and Iraq and Afghanistan Veterans of America, The New Battleground: Veterans Conference, July 31, 2014. MCRMC staff attended the conference and observed the panel discussion but did not participate.

[902] Information provided by JPMorgan Chase official, phone interview with MCRMC, August 11, 2014.

[903] Prudential Financial, Inc., *Veterans' Employment Challenges: Perceptions And Experiences Of Transitioning From Military To Civilian Life*, May 2012.

[904] Ibid.

[905] Ibid.

[906] DoD OSD P&R, meeting with MCRMC, January 14, 2014. DOL VETS, meeting with MCRMC, April 5, 2014. VA, meeting with MCRMC, March 7, 2014 and August 27, 2014.

[907] Department of Veterans Affairs, *National Center for Veterans Analysis and Statistics, Education Program Beneficiaries*, January 2014. *Also see* Lauren Kirkwood, McClatchy DC, *More Veterans Taking Advantage of Post-9/11 GI Bill*, accessed January 7, 2015, http://www.mcclatchydc.com/2014/03/17/221479_more-veterans-taking-advantage.html?rh=1#storylink=cpy.

[908] Prudential Financial, Inc., *Veterans' Employment Challenges: Perceptions And Experiences Of Transitioning From Military To Civilian Life*, May 2012.

[909] Information provided by Veterans Benefits, Administration, conference call with MCRMC staff, November 17, 2014.

[910] Government Accountability Office, *Transitioning Veterans: Improved Oversight Needed to Enhance Oversight of Transition Assistance Program*, GAO-14-144, 2 (2014), accessed January 7, 2015, http://www.gao.gov/products/GAO-14-144.

Veterans may benefit from an additional focus within One-Stop Career Centers. With the exception of Texas, states administer JVSG programs, which provide staff funding for One-Stop Career Centers, through their departments of labor or their equivalent.[911] Texas does this differently, by coordinating administration of its JSVG program through the Texas Veterans Commission.[912] Of the 10 states with the highest veteran populations,[913] Texas has one of the lowest veterans' unemployment rates.[914] Though state departments of labor or their equivalent agencies have the subject matter experts who understand the challenges of the employment market, state departments of veterans affairs directors or offices have a better understanding of the challenges veterans face. Rear Admiral W. Clyde Marsh, USN (Ret.), President of the National Association of State Directors of Veterans Affairs, testified before the House and Senate Veterans Affairs' Committees on March 6, 2014. He stated that the JVSG program's effectiveness could be improved with coordination with state Veteran Affairs directors.[915] In fact, several people commented to the Commission that some civilian employers do not fully understand military careers or skills, which increased coordination with state VAs could help address:

> *Civilian employers don't understand military veterans either. On interviews I was actually asked if I had shot at anyone or if I had been shot at. Civilian employers told me I didn't have the skills they needed to work in accounting even though I had worked in accounting and budget in the military my entire career.*[916]

> *When our service members retire from the military, they do so having been out of the civilian work force for twenty years—their peers are already established and will likely be our retirees' bosses. Veteran unemployment is high, and the age of the average retiree makes many companies reluctant to hire them at a competitive wage. Many will go into second careers, such as teaching, where they will start at the bottom of the pay scale in an already-underpaid job.*[917]

Veterans' unemployment may be reduced by increasing face-to-face connections between veterans and employees from the One-Stop Career Centers. Currently, One-Stop Career Center employees are not required to attend Transition GPS workshops.[918] Their participation in veteran-focused jobs fairs is not monitored or reported.[919] This lack of a face-to-face introduction impairs the connection these two groups require to best ensure a strong working relationship once the Service member has been separated.

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[911] Employees' Benefits, 20 CFR 1001.101.
[912] Kyle Mitchell, Deputy Executive Director, Texas Veterans Commission, witness testimony to the U.S. Congress Joint Economic Committee, July 10, 2013, accessed on September 30, 2014, http://www.jec.senate.gov/public//index.cfm?a=Files.Serve&File_id=bea3dd52-9403-4fa7-b720-94c19db526d3.
[913] Texas Workforce Investment Council, *Veterans in Texas: A Demographic Study*, December 2012, 6, access September 30, 2014, http://governor.state.tx.us/files/twic/Veterans_in_Texas.pdf.
[914] Joint Economic Committee Democratic Staff, *Post-9/11 and Total Veterans' Unemployment Rates by State, 2013 Annual Averages*, accessed September 30, 2014, http://www.jec.senate.gov/public//index.cfm?a=Files.Serve&File_id=21290f66-e2bf-4af1-855d-33ad4ce95445.
[915] Rear Admiral W. Clyde Marsh, USN (Ret.), President, National Association of State Directors of Veterans Affairs, testimony to Joint Hearing of the House and Senate Veterans' Affairs Committees, March 6, 2014.
[916] MCRMC letter writer, comment form submitted via MCRMC website, DATE
[917] MCRMC letter writer, comment form submitted via MCRMC website, DATE
[918] Implementation of Mandatory Transition Assistance Program Participation for Eligible Service Members, DTM-12-007, 5, 6, and 11 (2014).
[919] Ibid.

Conclusions:
Unemployment is a major challenge facing recently separated Service members, and existing programs are not yet sufficient to meet their needs. Service members would benefit from a greater understanding of the education benefits available to them. The existing Transition GPS program can be strengthened by improving Service members' networking skills and identifying existing barriers to private-sector companies seeking to hire veterans. DoD, VA, DOL, and SBA have put forward great effort in implementing Transition GPS. A joint review of the program would ensure the most relevant information is provided to transitioning Service members. The JSVG program and One-Stop Career Centers can be improved to better assist veterans seeking employment. States should have their departments of labor and departments of veterans affairs (or equivalents) work together to implement the JVSGs to ensure they are being put to the best use possible. One-Stop Career Center employees should attend the Transition GPS program whenever possible to encourage separating Service members to access services at the One-Stop Career Centers. One-Stop Career Center employees should report the number of job fairs they attend and the number of veterans they contact at each fair.

Recommendations:

- DoD should require mandatory participation in the Transition GPS education track for those planning to attend school after separation or those who have transferred their Post-9/11 GI Bill benefits. This track is currently an optional portion of the program. DoD should ensure these classes provide vital information regarding education benefits for Service members during the education track such as information regarding types of institutions of higher learning, tuition and fees, admission requirements, accreditation, transferability of credits, credit for qualifying military training, time required to complete a degree, and retention and job placement rates; information that addresses important questions that veterans should consider when choosing an institution of higher learning; and information about the Postsecondary Education Complaint System.[920]

- The Congress should require DoD, VA, and DOL to review and report on the core curriculum for Transition GPS to reevaluate if the current curriculum most accurately addresses the needs of transitioning Service members. This report should include review of the current curriculum; the roles and responsibilities of each Department and whether they are adequately aligned; and the distribution of time between the three departments in the core curriculum and whether it is adequate to provide all information regarding important benefits that can assist transitioning Service members. This review should indicate whether any of the information in the three optional tracks should be addressed

[920] In January 2014, agency partners including the departments of Veterans Affairs, Education and Defense launched online feedback tools that provide a centralized system for filing student complaints. Military and veteran students and their family members are able to submit feedback on their experiences with education institutions. The online complaint system empowers students to be more active in fulfilling their own education goals and positively influencing the decision of others looking for an institution to attend in the future. Students are encouraged to report on their experiences regarding the quality of instruction, recruiting practices, and post-graduation employment placement. "Postsecondary Education Complaint System Launches—January, 2014," Military One Source, accessed December 22, 2014, http://www.militaryonesource.mil/voluntary-education?content_id=272426. For more information regarding the Postsecondary Education Complaint System please visit: "Post Secondary Education Complaint System," Military One Source, accessed December 22, 2014, http://www.militaryonesource.mil/voluntary-education?content_id=274604.

instead in mandatory tracks. It should also include a standard implementation plan of long-term outcome measures for a comprehensive system of metrics. This review should identify any areas of concern regarding the program and recommendations for addressing those concerns.

- The Congress should amend the relevant statutes to permit state departments of labor or their equivalent agencies to work directly with state Veterans Affairs directors or offices to coordinate implementation of the JVSG program.

- The Congress should encourage One-Stop Career Centers to have employees attend Transition GPS classes, to ensure personal connections between veterans and One-Stop Career Centers. The Congress should require DOL to track when and where its employees attend Transition GPS classes, and the number of veterans they interact with and follow up with after separation. This information should be included in DOL's annual report to the Congress.

- DOL should require One-Stop Career Centers to track the number of job fairs their employees participate in and the number of veterans they connect with at each job fair. This information should be included in each state's annual report to the DOL, and provided to the Congress.

- The Congress should require a one-time joint report from DoD, VA, and DOL to the Senate and House Committees on Armed Services and Veterans' Affairs regarding the challenges employers face when seeking to hire veterans. The report should identify the barriers employers face gaining information identifying veterans seeking jobs. It should also include recommendations addressing barriers for employers and improving information sharing between Federal agencies that serve veterans and separating Service members, so they may more easily connect employers and veterans. The report should also review the Transition GPS career preparation core curriculum and recommend any improvements that can be made to better prepare Service members trying to obtain private-sector employment.

Implementation:

- 29 U.S.C. Chapter 30 governs workplace investment systems, including the One-Stop Career Centers. 29 U.S.C. § 2871 should be amended to require each state to include, in its report to DOL, information on the number of job fairs attended by One-Stop Career Center employees at which they contacted veterans in the previous year, and the number of veterans they contacted at each fair.

- 38 U.S.C. Chapter 41 governs job counseling, training, and placement services for veterans. 38 U.S.C. § 4103 should be amended to require that the director for veterans' employment and training for a state coordinate his or her activities with both the state's department of labor, or its equivalent, and the state's department of veterans affairs, or its equivalent.

- The Congress should require DoD, VA, and DOL to review and report on the core curriculum for Transition GPS to reevaluate if the current curriculum most accurately addresses the needs of transitioning Service members. This report should include review of the current curriculum; the roles and responsibilities of each Department and whether they are adequately aligned; and the

distribution of time between the three departments in the core curriculum and whether it is adequate to provide all information regarding important benefits that can assist transitioning Service members. This review should indicate whether any of the information in the three optional tracks should be addressed instead in mandatory tracks. It should also include a standard implementation plan of long-term outcome measures for a comprehensive system of metrics. This review should identify any areas of concern regarding the program and recommendations for addressing those concerns.

- The Congress should require a one-time joint report from DoD, VA, and DOL to the Senate Committees and House on Armed Services and Veterans' Affairs regarding the challenges employers face when seeking to hire veterans. The report should identify the barriers employers face gaining information identifying veterans seeking jobs. It should also include recommendations addressing barriers for employers and improving information sharing between Federal agencies that serve veterans and separating Service members, so they may more easily connect employers and veterans. The report should also review the Transition GPS career preparation core curriculum and recommend any improvements that can be made to better prepare Service members trying to obtain private-sector employment.

- Any other regulations (including the Code of Federal Regulations, if applicable), instructions, directives, or internal policies necessary to conform to the recommendation described above should be reissued, updated, amended, retracted, or otherwise changed as needed. Such as the following:

  - DoD DTM-12-007 should be changed to provide more information about education assistance available to separating Service members, and to make the education track of Transition GPS mandatory for those planning to attend school after separation or those who have transferred their Post-9/11 GI Bill benefits.

RECOMMENDATION 13: ENSURE SERVICE MEMBERS RECEIVE FINANCIAL ASSISTANCE TO COVER NUTRITIONAL NEEDS BY PROVIDING THEM COST-EFFECTIVE SUPPLEMENTAL BENEFITS.

Background:
Family Subsistence Supplemental Allowance (FSSA) is a voluntary benefits program that increases participating Service members' incomes above the threshold of eligibility for the U.S. Department of Agriculture's (USDA) Supplemental Nutrition Assistance Program (SNAP),[921] formerly called the Food Stamp Program.[922] FSSA and SNAP have the same Congressional mandate and overarching goal of providing nutritional assistance to eligible beneficiaries.[923] FSSA does this by raising a Service member's household income to 130 percent of the Federal poverty level through an increase in Basic Allowance for Subsistence (BAS). SNAP provides money on Electronic Benefit Transfer (EBT) cards, bringing household monthly food spending up to the maximum allotment for the household size, assuming 30 percent of net household income is spent on food.[924]

Service members applying for SNAP are required to pass through two eligibility gates, while FSSA applicants are required to pass only through the first gate. SNAP and FSSA eligibility requirements are summarized in Table 17.[925]

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[921] Pay and Allowances of the Uniformed Services, 37 U.S.C. § 402a(a)(1).
[922] *See* U.S. Department of Agriculture, Food and Nutrition Service, *Supplemental Nutrition Assistance Program (SNAP), A Short History of SNAP*, accessed May 1, 2014, http://www.fns.usda.gov/snap/short-history-snap.
[923] Family Subsistence Supplemental Allowance (FSSA) Program, Instructions and Guidance, DoDI 1341.11, 2 (2008). Agriculture, 7 U.S.C. § 2013.
[924] Family Subsistence Supplemental Allowance (FSSA) Program, Instructions and Guidance, DoDI 1341.11, 3 (2008). Agriculture, 7 U.S.C. § 2014. As an example, if a one-person household has net income of $200 per month and maximum SNAP allotment is $194, the monthly SNAP benefit would be $134, which is calculated by multiplying net income by 0.3 and subtracting that amount ($60) from $194. *See also* U.S. Department of Agriculture, Food and Nutrition Service, *Supplemental Nutrition Assistance Program (SNAP) Eligibility*, accessed November 6, 2014, http://www.fns.usda.gov/snap/eligibility.
[925] Family Subsistence Supplemental Allowance (FSSA) Program, Instructions and Guidance, DoDI 1341.11, 3 (2008). Agriculture, 7 U.S.C. § 2014. Military personnel stationed in foreign countries and applying for FSSA are subject to Alaska's income eligibility standard. Also it should be noted some States have raised their SNAP gross income limit above 130 percent of poverty (up to a maximum of 200 percent) through broad-based categorical eligibility. See Agriculture, 7 CFR 273.2(j). *See also* U.S. Department of Agriculture, Food and Nutrition Service, *Characteristics of Supplemental Nutrition Assistance Program Households: Fiscal Year 2012,* accessed September 19, 2014, www.fns.usda.gov/characteristics-supplemental-nutrition-assistance-program-households-fiscal-year-2012.

Table 17. SNAP and FSSA Eligibility Requirements

Program	GATE 1 Gross Monthly Income Eligibility	GATE 2 Net Monthly Income Eligibility
SNAP	Household monthly gross income must be less than 130 percent of the Federal poverty level, based on household size.[926] • Households with an elderly (60 years or older) or disabled individual bypass this gate.[927] • 43 states use broad-based categorical eligibility to increase the gate from 130% to as high as 200%. More than half of these set gross income requirements above 185 percent of the Federal poverty level.[928] • BAH is counted as income when paid to the Service member, but not when living in Government-owned "in-kind" housing.[929] • Loans, grants, and scholarships for a variety of educational programs are not counted as income.[930]	Monthly net income must be less than 100 percent of the Federal poverty level, based on household size (*net income = gross income – the deductions listed below*).[931] Deductions include: • 20% of earned income for all household members. • A standard deduction based on household size. • A dependent care deduction when needed for work, training, or education. • Medical expenses for elderly or disabled members exceeding $35 per month, if they are not paid by insurance or a third party. • Legally owed or court directed child support payments. • Cost of shelter, if shelter accounts for more than half of household's income after the other deductions. Allowable costs include the cost of fuel to heat and cook with, electricity, water, the basic fee for one telephone, rent or mortgage payments and taxes on the home. (Some States allow a set amount for utility costs instead of actual costs.) Shelter deduction cannot be more than $490 unless a person in the household is elderly or disabled. (Higher limits in AK, HI, and Guam.)
FSSA	Household monthly gross income must be less than 130 percent of the Federal poverty level, based on household size.[932] • BAH and Government-owned "in-kind" housing are counted as income.[933] • Loans, grants, and scholarships for post-secondary students are not counted as income.[934]	Not applicable.

[926] Family Subsistence Supplemental Allowance (FSSA) Program, Instructions and Guidance, DoDI 1341.11, 3 (2008). Agriculture, 7 U.S.C. § 2014. Military personnel stationed in foreign countries and applying for FSSA are subject to Alaska's income eligibility standard. Also it should be noted some States have raised their SNAP gross income limit above 130 percent of poverty (up to a maximum of 200 percent) through broad-based categorical eligibility. See Agriculture, 7 CFR 273.2(j). *See also* U.S. Department of Agriculture, Food and Nutrition Service, *Characteristics of Supplemental Nutrition Assistance Program Households: Fiscal Year 2012*, accessed September 19, 2014, www.fns.usda.gov/characteristics-supplemental-nutrition-assistance-program-households-fiscal-year-2012.

[927] Agriculture, 7 U.S.C. § 2014(c).

[928] *See* Agriculture, 7 CFR 273.2(j). *See also* U.S. Department of Agriculture, Food and Nutrition Service, *Broad-Based Categorical Eligibility*, accessed November 6, 2014, http://www.fns.usda.gov/sites/default/files/snap/BBCE.pdf. *See also* Congressional Research Service, *The Supplemental Nutrition Assistance Program (SNAP): Categorical Eligibility*, July 22, 2014, http://nationalaglawcenter.org/wp-content/uploads/assets/crs/R42054.pdf.

[929] Agriculture, 7 U.S.C. §2014(d)(1).

[930] Agriculture, 7 U.S.C. § 2014(d)(3).

[931] *See* Agriculture, 7 U.S.C. § 2014. *See also* U.S. Department of Agriculture, Food and Nutrition Service, *Supplemental Nutrition Assistance Program*, accessed November 6, 2014, http://www.fns.usda.gov/snap/eligibility.

[932] Family Subsistence Supplemental Allowance (FSSA) Program, Instructions and Guidance, DoDI 1341.11, 3 (2008). Agriculture, 7 U.S.C. § 2014. Military personnel stationed in foreign countries and applying for FSSA are subject to Alaska's income eligibility standard. Also it should be noted some States have raised their SNAP gross income limit above 130 percent of poverty (up to a maximum of 200 percent) through broad-based categorical eligibility. See

Gross monthly household income eligibility standards for FY 2015 are summarized in Table 18. This table is used to determine household eligibility for both FSSA and SNAP (Gate 1). As an example, a Service member with a spouse and three children stationed in the lower 48 states must have total gross household income less than $3,024 to qualify for FSSA or to pass through the first eligibility gate for SNAP. Exceptions in SNAP include households with elderly or disabled members, who automatically bypass this gate, and households in states using broad-based categorical eligibility to increase this gate to as high as 200 percent of the Federal poverty level.

Table 18. Gross Monthly Household Income Eligibility Standards for FSSA and SNAP (130 percent of poverty level), FY 2015[935]

Household Size	Lower 48 States*	Alaska	Hawaii
1	$1,265	$1,580	$1,454
2	$1,705	$2,130	$1,960
3	$2,144	$2,681	$2,466
4	$2,584	$3,231	$2,972
5	$3,024	$3,781	$3,478
6	$3,464	$4,332	$3,984
7	$3,904	$4,882	$4,490
8	$4,344	$5,432	$4,996
Each Additional Member	$440	$551	$506

*Includes District of Columbia, Guam, and the Virgin Islands

FSSA is available to Service members stationed in the United States and overseas.[936] SNAP is only available to Service members in the United States, D.C., Guam, and the U.S. Virgin Islands.[937] As indicated in Table 17, SNAP eligibility also depends on meeting requirements for net monthly household income (Gate 2). Net income thresholds in SNAP, along with associated standard income deductions, vary by household size.

The maximum FSSA benefit is capped at $1,100 per month.[938] FSSA is distributed as a cash payment without purchasing restrictions.[939] SNAP sets maximum payments based on

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Agriculture, 7 CFR 273.2(j). *See also* U.S. Department of Agriculture, Food and Nutrition Service, *Characteristics of Supplemental Nutrition Assistance Program Households: Fiscal Year 2012*, accessed September 19, 2014, www.fns.usda.gov/characteristics-supplemental-nutrition-assistance-program-households-fiscal-year-2012.

[933] Family Subsistence Supplemental Allowance (FSSA) Program, Instructions and Guidance, DoDI 1341.11, Enclosure 2, 11 (2008).

[934] Pay and Allowances of the Uniformed Services, 37 U.S.C. § 402a(b). *See also* Family Subsistence Supplemental Allowance (FSSA) Program, Instructions and Guidance, DoDI 1341.11, Enclosure 2, 10 (2008).

[935] United States Department of Agriculture FY 2015 Income Eligibility Standards, accessed November 20, 2014, http://www.fns.usda.gov/sites/default/files/FY15_Income_Standards.pdf and Information provided by USDA through Director of Military Compensation, Office of Personnel and Readiness, e-mail to MCRMC, October 7, 2014.

[936] Family Subsistence Supplemental Allowance (FSSA) Program, Instructions and Guidance, DoDI 1341.11, 4 (2008), http://dtic.mil/whs/directives/corres/pdf/134111p.pdf, accessed November 13, 2014.

[937] United States Department of Agriculture, *Memorandum on SNAP – Fiscal Year 2015 Cost-of-Living Adjustments dated August 1, 2014*, accessed November 20, 2014, http://www.fns.usda.gov/sites/default/files/snap/SNAP_%20FY_2015_Cost_of_Living_Adjustments.pdf. *See also* Agriculture, 7 U.S.C. § 2014.

[938] Pay and Allowances of the Uniformed Services, 37 U.S.C. § 402a(a).

[939] Family Subsistence Supplemental Allowance (FSSA) Program, Instructions and Guidance, DoDI 1341.11, 3 (2008).

household size.[940] A household's monthly benefit level is calculated by subtracting 30 percent of the household's net income from the maximum allotment for the household size as summarized in Table 19.[941] Monthly SNAP benefits can only be used to purchase nutritional food items for the household[942] or to purchase plants and seeds to grow food.[943]

Table 19. Maximum Monthly Allotments for SNAP, FY 2015[944]

Household Size	Lower 48 States	Alaska*	Hawaii	Guam	Virgin Islands
1	$194	$227/$290/$353	$332	$287	$250
2	$357	$417/$532/$648	$609	$526	$459
3	$511	$598/$762/$928	$872	$753	$657
4	$649	$759/$968/$1,178	$1,107	$957	$835
5	$771	$902/$1,150/$1,399	$1,315	$1,136	$991
6	$925	$1,082/$1,380/$1,679	$1,578	$1,364	$1,189
7	$1,022	$1,196/$1,525/$1,856	$1,744	$1,507	$1,315
8	$1,169	$1,367/$1,743/$2,109	$1,994	$1,723	$1,503
Each Additional Member	$146	$171/$218/$265	$249	$215	$188

*Urban/Rural 1/Rural 2

Service members are also eligible to receive supplemental nutritional assistance through USDA's Women, Infants and Children (WIC) program. WIC provides support for low-income; nutritionally at risk pregnant women; breastfeeding women; nonbreastfeeding, postpartum women; infants until they reach 1-year of age, and children until they reach their fifth birthday.[945] Participants receive supplemental nutritious foods, nutrition education, and counseling, as well as screening and referrals to other welfare, health, and social services.[946] There are USDA-sponsored WIC program offices on a number of military installations that provide support to Service member families as well as others with installation access.[947] The overseas WIC program for Service members is provided by DoD,[948] and includes support for Service members, civilian employees, DoD contractors and family members.[949] Although Service members may receive WIC support in addition to SNAP or FSSA,

[940] Information provided by USDA through Director of Military Compensation, Office of Personnel and Readiness, e-mail to MCRMC, October 7, 2014. *See also* Department of Agriculture, Food and Nutrition Service, *Supplemental Nutrition Assistance Program*, accessed November 6, 2014, http://www.fns.usda.gov/snap/eligibility.
[941] Information provided by USDA through Director of Military Compensation, Office of Personnel and Readiness, e-mail to MCRMC, October 7, 2014. *See also* Department of Agriculture, Food and Nutrition Service, *Supplemental Nutrition Assistance Program*, accessed November 6, 2014, http://www.fns.usda.gov/snap/eligibility. Agriculture, 7 U.S.C. § 2017.
[942] *See* U.S. Department of Agriculture, Food and Nutrition Service, *Supplemental Nutrition Assistance Program*, accessed November 6, 2014, http://www.fns.usda.gov/snap/eligibility.
[943] Agriculture, 7 U.S.C. § 2012(k).
[944] United States Department of Agriculture FY 2015 Allotments and Deduction Information, accessed November 20, 2014, http://www.fns.usda.gov/sites/default/files/FY15_Allot_Deduct.pdf. *See also*, United States Department of Agriculture FY 2015 Maximum Allotment Amounts for Alaska, Hawaii, Guam and U.S. Virgin Islands, accessed November 20, 2014, http://www.fns.usda.gov/sites/default/files/FY15_Allot_Deduct_AKHIGUVI.pdf.
[945] The Public Health and Welfare, 42 U.S.C. § 1786. "About WIC - WIC at a Glance," United States Department of Agriculture, http://www.fns.usda.gov/wic/about-wic-wic-glance, accessed November 13, 2014.
[946] Ibid.
[947] "Special Programs: Women, Infants, and Children Overseas Program," Defense Health Agency, accessed January 12, 2015, http://www.tricare.mil.wic.
[948] Ibid.
[949] Ibid.

increased BAS payments associated with FSSA may raise household income above the WIC threshold.

For additional information on FSSA, please see the Report of the Military Compensation and Retirement Modernization Commission: Interim Report *(Section 5.1.5).*

Findings:
In many circumstances, it is easier to qualify for SNAP than it is for FSSA. FSSA provides enough supplementary benefits to raise Service member's household income to 130 percent of the Federal poverty level. Most states, however, have increased the gross income eligibility threshold above this 130 percent standard.[950] For example, residents of Texas pass the first eligibility gate of SNAP if their monthly household gross income is below 165 percent of the Federal poverty line.[951] Of the 8,486 FSSA applications nationwide in FY 2013, 96.6 percent were denied.[952] Yet because of differences in the evaluation of gross income and SNAP deductions associated with net income, Service members who are denied FSSA may qualify for SNAP.[953]

Furthermore, SNAP may provide more benefits to Service members than FSSA. FSSA payments are enough to fill the gap between Service members' total household income and 130 percent of poverty level. The lower a Service member's income, the more additional pay they receive, up to the $1,100 per month cap. SNAP pays a set amount for a given household size, subtracting 30 percent of net income. As a result, for a given household size, Service members with very low income levels can receive more money under FSSA and those with a higher income, just low enough to qualify, can receive more money from SNAP. Table 20 provides an example of FSSA and SNAP benefits that would be received by an E4 with 2 years of service with a spouse and four children located at Fort Leonard Wood, Missouri.

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[950] *See* Agriculture, 7 CFR 273.2(j). *See also* Department of Agriculture, Food and Nutrition Service, *Broad-Based Categorical Eligibility,* accessed November 6, 2014, http://www.fns.usda.gov/sites/default/files/snap/BBCE.pdf. *See also* Congressional Research Service report on The Supplemental Nutrition Assistance Program (SNAP): Categorical Eligibility, July 22, 2014, http://nationalaglawcenter.org/wp-content/uploads/assets/crs/R42054.pdf.
[951] *See* Agriculture, 7 CFR 273.2(j). *See also* Department of Agriculture, Food and Nutrition Service, *Broad-Based Categorical Eligibility,* accessed November 6, 2014, http://www.fns.usda.gov/sites/default/files/snap/BBCE.pdf. *See also* Congressional Research Service report on The Supplemental Nutrition Assistance Program (SNAP): Categorical Eligibility, July 22, 2014, http://nationalaglawcenter.org/wp-content/uploads/assets/crs/R42054.pdf.
[952] Data supplied by Director of Military Compensation, Office of Personnel and Readiness, e-mail to MCRMC, August 13, 2014. It is important to note a Service member can apply multiple times for FSSA; therefore, this number does not directly correlate to the total number of households who applied for the benefit.
[953] Information provided by USDA through Director of Military Compensation, Office of Personnel and Readiness, e-mail to MCRMC, October 7, 2014. *See also* Agriculture, 7 U.S.C. § 2014. *See also* Family Subsistence Supplemental Allowance (FSSA) Program, Instructions and Guidance, DoDI 1341.11 (2008).

Table 20. Example of Financial Support under FSSA and SNAP

FSSA		SNAP*	
		Income (Basic Pay/BAH/BAS)	$3,386.35
		-20% Deduction	$677.27
130% of Poverty	$3,464.00	-Standard Deduction[954]	$221.00
-Income (Basic Pay/BAH/BAS)	$3,386.35	Net Income	$2,488.08
Monthly Increase in BAS	**$77.65**		
		Maximum SNAP Allotment	$925.00
		-30% of Net Income	$746.42
		Monthly Allotment on EBT Card	**$178.58**

*130 percent of poverty test met ($3,464); 100 percent of poverty test met ($2,665); assumes only guaranteed net income deductions

Military recipients of SNAP have no obligation to inform or obtain permission from their Military Service to utilize these benefits unless they are already receiving FSSA.[955] Service members applying for FSSA support may be required to work with their local financial counselors and chain of command.[956] This requirement may stigmatize Service members. Examples of this perspective can be seen in feedback from Service members in a 2014 joint survey by the advocacy group Esposas Militares Hispanas USA Armed Forces and the Military Spouse Advocacy Network.[957] The goal of the survey was to get information on FSSA awareness and utilization. Feedback included these responses:

> *We looked into FSSA when my husband was E3, but was told by his COC that he shouldn't apply for it because his basic pay "should" have been enough.*[958]

> *I think it's more embarrassing than hard to get the signature which is why we decided to just bear with it and see what we could eliminate from our expenses*[959]

For these reasons, many more Service members enroll in SNAP than in FSSA. The FSSA program has very limited participation; only 285 Service members received FSSA benefits in FY 2013.[960] Meanwhile, USDA estimates that between 2,000 and 22,000 AC Service members received SNAP benefits in FY 2012.[961] The lower estimate is based on data from 50,000 random households provided by states to USDA only for the purpose of auditing SNAP payment verification, not for the purpose of estimating active-duty

[954] Department of Agriculture, *FY 2015 Allotments and Deduction Information*, accessed November 20, 2014, http://www.fns.usda.gov/sites/default/files/FY15_Allot_Deduct.pdf.
[955] Family Subsistence Supplemental Allowance (FSSA) Program, DoDI 1341.11 (2008).
[956] Family Subsistence Supplemental Allowance (FSSA) Program, DoDI 1341.11, 4 (2008). For example, the Army, which has 99 percent of FSSA participants, requires applicants to receive military financial counseling before submitting an FSSA application through the chain of command. See ALARACT Family Subsistence Supplemental Allowance, dated January 29, 2010, https://www.dmdc.osd.mil/Issa/consent?continueToUrl=%2Ffssa%2Fgetfile.do%3FfileNm%3DArmy%2520ALARACT%2520FSSA%2520Guidance.pdf%26filePathNm%3Dresources%26appId%3D496%26app_key_id%3Dh20n283kfmw2a3.
[957] Information supplied by Esposas Militares Hispanas USA Armed Forces, e-mails to MCRMC, October 3, 2014.
[958] Information supplied by Esposas Militares Hispanas USA Armed Forces, e-mail to MCRMC, August 19, 2014.
[959] Ibid.
[960] Data supplied by Director of Military Compensation, Office of Personnel and Readiness, e-mail to MCRMC, August 13, 2014.
[961] Department of Agriculture, Food and Nutrition Service, *Quick Facts: SNAP Participation Among Members of the Armed Forces*, February 2014, provided by USDA FNS Office of Policy Support, e-mail to MCRMC, June 25, 2014.

households using SNAP.[962] The higher estimate is based on the U.S. Census Bureau's American Community Survey data, which requires randomly selected households to indicate if any person in the household is in the military and if SNAP benefits were received during the last 12 months.[963]

Estimates of SNAP usage by military members vary widely because states that administer these benefits[964] are not required to collect data on the actual number of active-duty Service members in households receiving SNAP.[965] If a state does ask whether the applicant is a Service member, it does not always receive a clear indication as to whether the member is on active duty or in the Reserve Component.

During town halls and other meetings, there was concern expressed over Service members' continued reliance on supplementary benefits, whether FSSA or SNAP. The Commission received numerous website and survey comments related to "food stamps" highlighting the perception that many Service member households rely on SNAP:

> *A majority of young enlisted military families are currently being paid so little that they qualify for Government assistance programs such as WIC and food stamps.*[966]
>
> *Active-duty enlisted military members are often receiving food stamps in order for their families to survive.*[967]
>
> *Many members of our armed services will need to use food stamps.*[968]
>
> *We still have junior enlisted and officers who are able to get food stamps.*[969]
>
> *E1s with a spouse and children in the military can't afford to feed their own family without food stamps.*[970]
>
> *A lot of the military are eligible for food stamps, and other low income programs.*[971]
>
> *The benefits for the family are extremely important to enlisted personnel retention. When the service member is deployed he doesn't want to know his wife is scrapping together money go shopping for their kids.*[972]

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[962] U.S. Department of Agriculture, Food and Nutrition Service, *Characteristics of Supplemental Nutrition Assistance Program Households: Fiscal Year 2012*, accessed September 19, 2014, https://www.fns.usda.gov/characteristics-supplemental-nutrition-assistance-program-households-fiscal-year-2012.
[963] *See* U.S. Department of Agriculture, Food and Nutrition Service, *Quick Facts: SNAP Participation Among Members of the Armed Forces*, February 2014, provided by USDA FNS Office of Policy Support, e-mail to MCRMC, June 25, 2014. *See also* United States Census Bureau, American Community Survey: Methodology, accessed January 7, 2015, http://www.census.gov/acs/www/methodology/methodology_main/.
[964] Agriculture, 7 U.S.C. § 2013.
[965] Information supplied by U.S. Department of Agriculture, Food and Nutrition Service officials, meeting with MCRMC, September 5, 2014.
[966] MCRMC letterwriter, comment form submitted via MCRMC Website, June 8, 2014.
[967] MCRMC letterwriter, comment form submitted via MCRMC Website, July 18, 2014.
[968] MCRMC letterwriter, comment form submitted via MCRMC Website, May 8, 2014.
[969] MCRMC letterwriter, comment form submitted via MCRMC Website, April 7, 2014.
[970] MCRMC letterwriter, comment form submitted via MCRMC Website, December 3, 2013.
[971] MCRMC letterwriter, comment form submitted via MCRMC Website, November 28, 2013.

Table 21 presents the minimum number of people that Service members would need in their households to become eligible for FSSA or SNAP, based on the 130 percent gross income threshold (Gate 1). In these estimates, gross monthly income includes basic pay, Basic Allowance for Housing (BAH), and BAS.[973] This table shows that households need at least six members for Service members to be eligible for either program in the lower 48 states. Households can be smaller in Alaska and Hawaii because of increased costs of living.

Table 21. Minimum Household Size Requirements for a Service Member to Qualify for FSSA or SNAP.

					Minimum Household Size**		
Rank	Basic Pay*	Average BAH	BAS	Total	U.S.	Alaska	Hawaii
E1	$1531.50	$1295.00	$357.55	$3184.05	6	4	5
E2	$1716.90	$1295.00	$357.55	$3369.45	6	5	5
E3	$1805.40	$1295.00	$357.55	$3457.95	6	5	5
E4	$1999.50	$1295.00	$357.55	$3652.05	7	5	6
E5	$2181.00	$1408.00	$357.55	$3946.55	8	6	6
O1	$2905.20	$1431.00	$246.24	$4582.44	N/A	7	8
O2	$3347.10	$1614.00	$246.24	$5207.34	N/A	8	N/A
O3	$3873.90	$1831.00	$246.24	$5951.14	N/A	N/A	N/A

*Assumes minimum years of service

**For SNAP, assumes no households in states using broad-based categorical eligibility or with elderly or disabled members

Conclusions:

FSSA is duplicative and, in many cases, less generous than SNAP, which is a much broader Federal program that successfully addresses the same goal of nutritional assistance. In addition, stigmas associated with FSSA may impair the quality of life and careers of Service members and their dependents. For these reasons, FSSA should be sunset in places where SNAP or similar programs[974] are available.

SNAP administrators should capture information to track the number of active-duty Service members who rely upon supplemental nutritional benefits to better inform military compensation decisions.

Recommendations:

- The FSSA program should be retained for Service members in overseas locations where no SNAP assistance is available.
- The FSSA program should be sunset in the United States, Puerto Rico, Guam, and other U.S. territories where SNAP or similar programs exist, thereby reducing the administrative costs of a duplicative program.

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[972] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.

[973] Other household income, such as other allowances, special pays, or income from other household members is not included.

[974] An example of a similar program to SNAP is the National Assistance Block Grants program, which provides nutrition assistance similar to SNAP benefits to eligible residents of Puerto Rico, American Samoa, and the Commonwealth of the Northern Mariana Islands. These jurisdictions do not have SNAP programs. *See* Agriculture, 7 U.S.C. § 2028. *See also* United States Department of Agriculture, Food and Nutrition Service, *Nutrition Assistance Block Grants: Quick Facts*, accessed January 7, 2015, http://www.fns.usda.gov/sites/default/files/NABGP_Quick_Facts.pdf.

- Based on the unavailability of data on Service member households using SNAP, states and counties should provide this data to DoD on a regular basis. DoD should analyze the data to determine if there are systemic issues related to location or pay that should be rectified to provide for adequate nutrition for Service member households.

Implementation:

- 37 U.S.C. § 402a governs the FSSA program. The section should be amended to restrict eligibility only to Service member households stationed outside the United States, following a 2-year adjustment period to ensure eligible Service members have sufficient time to apply for replacement benefits.

- 7 U.S.C. Chapter 51 governs the SNAP program, including the administrative and data-sharing provisions of the program. 7 U.S.C. § 2020 should be amended to permit states to disclose information, upon request, to DoD on the number of households in the state which receive SNAP benefits and contain one or more active-duty or RC Service member.

- Any other regulations (including the Code of Federal Regulations, if applicable), instructions, directives, or internal policies necessary to conform to the recommendation described above should be reissued, updated, amended, retracted, or otherwise changed as needed.

RECOMMENDATION 14: EXPAND SPACE-AVAILABLE TRAVEL TO MORE DEPENDENTS OF SERVICE MEMBERS BY ALLOWING TRAVEL BY DEPENDENTS OF SERVICE MEMBERS DEPLOYED FOR 30 DAYS OR MORE.

Background:
The Secretary of Defense is authorized to provide air travel for Service members, certain retirees, and their family members on a space-available basis.[975] Space Available (Space-A) travel regulations provide eligible passengers access to seats on military air transport flights that would otherwise be empty. Unused seats on DoD-owned or controlled aircraft are only made available to Space-A travelers once space-required (duty) passengers and cargo have been accommodated.[976]

The program classifies passengers into Categories I through VI, by priority of travel, and potential passengers are processed in priority order.[977] Current DoD policy permits unaccompanied dependents to use Category IV Space-A travel, but only when the dependent's sponsor is serving a deployment of at least 120 days.[978]

For additional information on Space-A travel, please see the Report of the Military Compensation and Retirement Modernization Commission: Interim Report *(Section 5.1.12).*

Findings:
Issues of expanding Space-A eligibility for dependents were first raised during a Town Hall at Joint Base Lewis-McChord.[979] The Commission heard accounts of how important Space-A travel benefits can be to Service families, improving access to extended family and other support during periods of deployment.[980] When available, this benefit was able to improve Service families' quality of life by reducing the psychological and financial stresses placed on them by the military obligations of their deployed Service member.[981]

In recent years, frequent deployments have been a reality for many Service members. Since September 11, 2001, 66 percent of Service members have deployed.[982] The average Service member deployed 2.6 times, with many specialties deploying more often.[983] For example, special operations Service members are likely to be sent on frequent, 30- to 60-day deployments.[984] A 2012 analysis of 678,382 active-duty personnel from 2001 to 2006 showed that many deployments as part of Operation ENDURING FREEDOM (OEF) and Operation IRAQI FREEDOM (OIF) were for fewer

[975] Armed Forces, 10 U.S.C. § 2641b.
[976] Armed Forces, 10 U.S.C. § 2641b. Air Transportation Eligibility, DoD 4515.13-R (1994).
[977] Air Transportation Eligibility, DoD 4515.13-R (1994).
[978] Department of Defense, *Policy Memorandum on Space Available (Space-A) Travel for Dependents of Deployed Military Members (Dec. 6, 2007).* Air Transportation Eligibility, DoD 4515.13-R (1994).
[979] Public testimony, MCRMC Town Hall, Joint Base Lewis-McChord, Seattle, WA, December 12, 2013.
[980] Public testimony, MCRMC Town Hall, Joint Base Lewis-McChord, Seattle, WA, December 12, 2013.
[981] Public testimony, MCRMC Town Hall, Joint Base Lewis-McChord, Seattle, WA, December 12, 2013.
[982] Department of Defense, *February 2012 Status of Forces Survey of Active Duty Members,* 146.
[983] Department of Defense, *February 2012 Status of Forces Survey of Active Duty Members,* 148.
[984] Military Family Advisory Network (MFAN), meeting with MCRMC, Alexandria VA, October 25, 2014.

than 120 days making dependents of these deployed Service members ineligible for Space-A travel.[985]

Deployments are a well-documented period of increased stress for military families.[986] In the 2014 Blue Star Families Military Family Lifestyle Survey, deployments and separations were identified as top causes of stress by 69 percent of spouses and 60 percent of Service members.[987] A 2010 study of more than 250,000 spouses of active-duty Army members determined that deployments to OEF/OIF were associated with elevated rates of treatment for, and diagnoses of, depression, sleep problems, anxiety disorders, acute stress reactions, and adjustment disorders.[988] Multiple studies have shown similar effects on military children.[989]

Conclusions:
The increased stress experienced by families of deployed Service members can sometimes be reduced through access to Space-A travel benefits. Current policy allows unaccompanied Space-A travel for military dependents of Service members deployed for 120 days or more, under priority category IV. Shortening the deployment length needed to qualify for this benefit from 120 days to 30 days would expand availability to this group of people who experience challenges resulting from the deployment of a Service member.

Recommendations:

- DoD should allow unaccompanied dependents of Service members deployed for 30 days or more to use Space-A travel, under priority category IV.

Implementation:

- 10 U.S.C. § 2641b governs Space-A travel on DoD aircraft. No change to this governing statute is recommended.

- Any other regulations (including the Code of Federal Regulations, if applicable), instructions, directives, or internal policies necessary to conform to the recommendation described above should be reissued, updated, amended, retracted, or otherwise changed as needed. Such as the following:

  - DoD should amend the Air Transportation Eligibility Regulation, DoD 4515.13-R (1994) (as modified by the December 6, 2007, memorandum of

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[985] Yu-Chen Shen, Jeremy Arkes, Thomas V. Williams, "Effects of Iraq/Afghanistan Deployments on Major Depression and Substance Use Disorder: Analysis of Active Duty Personnel in the US Military," *American Journal of Public Health*, 102, Suppl. 1 (2012): S80-S87, abstract accessed November 13, 2014, http://www.ncbi.nlm.nih.gov/pmc/articles/PMC3496458. (The researchers used data obtained from DoD's Contingent Tracking System. MCRMC requests to independently obtain Contingent Tracking System data for confirmation were unsuccessful.)

[986] Department of Defense, *Report on the Impacts of Deployment of Deployed Members of the Armed Forces on Their Dependent Children*, October 2010, 1. Blue Star Families, *2014 Military Family Lifestyle Survey, Comprehensive Report*, 78, accessed December 14, 2014, https://www.bluestarfam.org/sites/default/files/media/stuff/bsf_report_comprehensive_reportfinal_single_pages.pdf

[987] Blue Star Families, *2014 Military Family Lifestyle Survey, Comprehensive Report*, 78, accessed December 14, 2014, https://www.bluestarfam.org/sites/default/files/media/stuff/bsf_report_comprehensive_reportfinal_single_pages.pdf.

[988] Alyssa J. Mansfield, Jay S. Kaufman, Stephen W. Marshall, Bradley N. Gaynes, Joseph P. Morrisey, Charles C. Engel, "Deployment and the use of mental health services among U.S. Army wives," *New England Journal of Medicine*, 362, no. 2, (2010): 101-109.

[989] *See* Abigail H. Gewirtz, Christopher R. Erbes, Melissa A. Polusny, Marion S. Forgatch, David S. DeGarmo, "Helping Military Families Through the Deployment Process: Strategies to Support Parenting," *Professional Psychology*, 42, no. 1, (2011): 56-62.

the Deputy Undersecretary of Defense for Logistics and Materiel Readiness, authorizing Space-A travel by spouses and dependent children of Service members deployed for 120 consecutive days or more), to add "dependents of Service members deployed for at least 30 consecutive days" as Item 23, Table C6.T1.

RECOMMENDATION 15: MEASURE HOW THE CHALLENGES OF MILITARY LIFE AFFECT CHILDREN'S SCHOOL WORK BY IMPLEMENTING A NATIONAL MILITARY DEPENDENT STUDENT IDENTIFIER.

Background:
Most elementary and secondary school student registration processes and associated data systems in the Nation do not include an indicator of students who have a military affiliation.[990] For example, the Elementary and Secondary Education Act (ESEA) currently recognizes four subgroups of students: economically disadvantaged students, students from major racial and ethnic groups, students with disabilities, and students with limited English proficiency.[991] The U.S. Department of Education's Impact Aid program does collect data on military dependent students because school districts applying for Impact Aid collect and report their numbers of military-connected students.[992] But not all schools with military dependent students apply for Impact Aid,[993] and Impact Aid data is not included in or correlated to the ESEA academic performance and attendance data submitted for national-level reporting.[994] As a result, national reports on student performance cannot reliably differentiate military dependent students from all others.

Military dependent student identifiers have been implemented or directed in at least 12 states.[995] Alaska,[996] Arkansas,[997] Illinois,[998] Indiana,[999] Nevada,[1000] North Carolina,[1001] Tennessee,[1002] and Texas[1003] have enacted legislation requiring local education authorities to identify and report on military-connected students. The state education departments in Florida,[1004] Maine,[1005] Michigan,[1006] and South Carolina[1007] have adopted identifiers for military-connected students independent of legislative requirements.

Even in the states that have implemented a military dependent student identifier, there are inconsistencies that affect the quality of the data and associated reports.

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[990] "Issue 9: Assign an identifier for military children in education data systems," USA4Military Families Initiative, accessed September 17, 2014, http://www.usa4militaryfamilies.dod.mil/MOS/f?p=USA4:ISSUE:0::::P2_ISSUE:9.
[991] Education, 20 U.S.C. § 6311.
[992] Education, 20 U.S.C. § 7703b.
[993] Of the more than 14,000 school districts nationwide, 902 received Education Impact Aid payments for federally connected children in fiscal year 2009. Government Accountability Office, *Education of Military Dependent Students, Better Information Needed to Assess Student Performance*, March 2011, GAO-11-231, 5.
[994] "Issue 9: Assign an identifier for military children in education data systems," USA4Military Families Initiative, accessed September 17, 2014, http://www.usa4militaryfamilies.dod.mil/MOS/f?p=USA4:ISSUE:0::::P2_ISSUE:9.
[995] Jennifer Dounay Zinth, Education Commission of the States, *ECS Analysis of Military Student Identifier Policies*, August 2014.
[996] Alaska Stat. § 14.03.120(d) (2014), as amended.
[997] Ark. Code Ann. § 6-18-107 (2014).
[998] 105 Ill. Comp. Stat. 5/22-70 (2014).
[999] Ind. Code § 20-19-3-9.4 (2014), as amended.
[1000] Nev. Rev. Stat. § 386.650(b)(3) (2013), as amended.
[1001] N.C. Gen Stat. § 115c-12(18)(f) (2014), as amended.
[1002] Tenn. Code Ann. § 49-6-5101(b) (2014).
[1003] Tex. Education Code Ann. § 25.006(c) (2013).
[1004] *See* Florida Department of Education, *DOE Information Database Requirements Vol. 1* (2013).
[1005] *See* "Military Families," Maine Department of Education, accessed October 7, 2014, http://maine.gov/doe/special/military.html.
[1006] *See* Michigan Department of Education, *Reporting Military-Connected Children*, accessed September 25, 2014, http://www.michigan.gov/documents/mde/Mil_children_470904_7.pdf.
[1007] *See* South Carolina State Department of Education Office of Research and Data Analysis, *Power School South Carolina State Reporting Specific Fields Manual*, 69, accessed September 25, 2014.

One example is the definition of a military dependent student. In Alaska,[1008] Illinois,[1009] Michigan,[1010] Nevada,[1011] South Carolina,[1012] and Tennessee,[1013] military dependent students are defined as those who have either a parent or guardian who is military-connected. Indiana[1014] and Maine[1015] simply specify a parent and do not mention guardians. The laws of the remaining five states have definitions that vary greatly. Arkansas includes children who reside in the household of a person on active duty or in the Reserve Component (RC).[1016] North Carolina counts any student living in the same household with an active-duty or RC Service member.[1017] Florida refers to the "child of a military family" and includes prekindergartners in data collection.[1018] Texas requires that a student be a "dependent" of a person in the military.[1019]

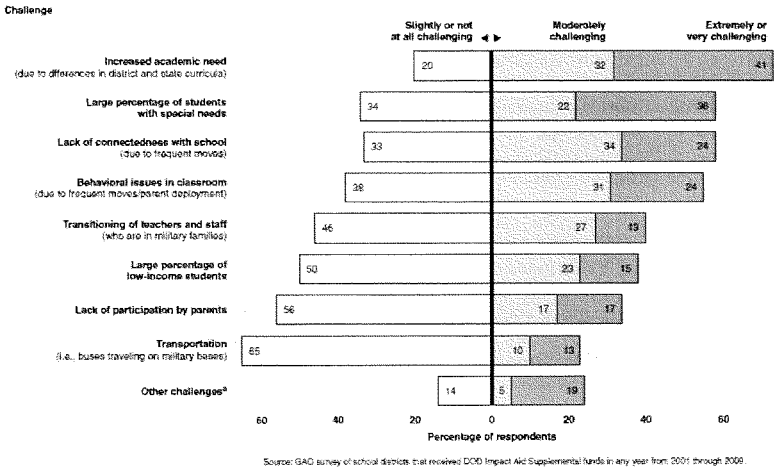
Findings:
A 2011 GAO study found, "There are no national public data on military dependent students' academic progress, attendance, or long-term outcomes, such as college attendance or workplace readiness."[1020] This situation is particularly attributable to the absence of a consistently implemented indicator across all states. The Commission agrees with the GAO that, "without more specific data, educators, base commanders, and community leaders are not able to provide military dependent students with appropriate resources because they do not have information on their specific educational needs or the effectiveness of the schools and programs serving them."[1021]

Military dependent students are often subjected to additional challenges such as family separation and more frequent moves.[1022] A 2010 study by researchers at Johns Hopkins University examined mobility among military families and determined, "Approximately 20 percent of American families move annually, and individuals and families in the military move even more frequently, with approximately 33% relocating each year."[1023] In a survey of local educational activities conducted in 2010, the GAO reported, "Officials at three-quarters of the school districts responding to the survey reported that issues associated with military dependent students' frequent moves to

[1008] Alaska Stat. § 14.03.120(d) (2014), as amended.
[1009] 105 Ill. Comp. Stat. 5/22-70 (2014).
[1010] Michigan's data collection is not required by statute. Instead, the policy was created by the Michigan Department of Education's Office of School Support Services. *See* Michigan Department of Education, *Reporting Military-Connected Children*, accessed September 25, 2014, http://www.michigan.gov/documents/mde/Mil_children_470904_7.pdf.
[1011] Nev. Rev. Stat. § 386.650(b)(3) (2013), as amended.
[1012] South Carolina's data collection is not required by statute. The policy was created by the South Carolina Department of Education alongside the reporting requirements imposed by ESEA. *See* South Carolina State Department of Education Office of Research and Data Analysis, *Power School South Carolina State Reporting Specific Fields Manual*, 69.
[1013] Tenn. Code Ann. § 49-6-5101(b) (2014).
[1014] Ind. Code § 20-19-3-9.4 (2014), as amended.
[1015] Maine's data collection is not required by statute. Instead, Maine's Department of Education has enacted policies conforming to the Military Interstate Children's Compact Commission, of which Maine is a member, though Maine's legislature has not yet formally enacted laws requiring compliance. *See* "Military Families," Maine Department of Education, accessed October 7, 2014, http://maine.gov/doe/special/military.html.
[1016] Ark. Code Ann. § 6-18-107 (2014).
[1017] N.C. Gen Stat. § 115c-12(18)(f) (2014), as amended.
[1018] Florida's data collection is not required by statute. The policy was enacted by the Florida Department of Education in response to Florida's joining the Interstate Compact on Educational Opportunity for Military Children. See Florida Department of Education, DOE Information Database Requirements Vol. 1 (2013).
[1019] Tex. Education Code Ann. § 25.006(c) (2013).
[1020] Government Accountability Office, *Education of Military Dependent Students, Better Information Needed to Assess Student Performance*, March 2011, GAO-11-231, 16.
[1021] Ibid, 17.
[1022] Catherine P. Bradshaw, May Sudhinaraset, Kristin Mmari, Robert W. Blum, "School Transitions Among Military Adolescents: A Qualitative Study of Stress Appraisal and Coping," *School Psychology Review*, 39, no. 1, (2010): 84-105.
[1023] Ibid.

new schools were moderately, very, or extremely challenging. Mobility increased academic needs due to differences in state and district curricula, lack of connectedness with school, and behavioral issues in the classroom. The largest challenge reported by school districts in our survey was the increased academic need of children in military families who transfer to a school with different curricula or academic standards than those in their previous school and thus need additional support."[1024] Figure 23 summarizes challenges encountered in the education of military dependent students as reported in the GAO survey.

Figure 23. School District-Reported Challenges in Educating Military Dependent Students



Source: GAO survey of school districts that received DOD Impact Aid Supplemental funds in any year from 2001 through 2008.

Studies have shown that these children are more likely to experience difficulties and anxieties that can affect how they perform in the classroom.[1025] A study in the journal *Social Forces* found "[h]ighly mobile students tend to report having fewer close friends and are more likely to be on the periphery of peer social networks."[1026] The National Association of School Psychologists published a study titled "School Transitions Among Military Adolescents: A Qualitative Study of Stress Appraisal and Coping," which found, "One-third of school-age military children show psychosocial behaviors

[1024] Government Accountability Office, *Education of Military Dependent Students, Better Information Needed to Assess Student Performance*, March 2011, GAO-11-231, 18.
[1025] Catherine P. Bradshaw, May Sudhinaraset, Kristin Mmari, Robert W. Blum, "School Transitions Among Military Adolescents: A Qualitative Study of Stress Appraisal and Coping," *School Psychology Review*, 39, No. 1, (2010): 84-105. *See also* Eric M. Flake, Beth Ellen Davis, Patti L. Johnson, Laura S. Middleton, "The Psychosocial Effects of Deployment on Military Children," *Journal of Developmental & Behavioral Pediatrics*, 30, no. 4 (2009): 271-278, abstract accessed November 10, 2014, http://journals.lww.com/jrnldbp/Abstract/2009/08000/The_Psychosocial_Effects_of_Deployment_on_Military.1.aspx.
[1026] Dana L. Haynie, Scott J. South, "Residential Mobility and Adolescent Violence," *Social Forces*, 84, no. 1, (2005): 363-376, accessed November 10, 2014, http://sf.oxfordjournals.org/content/84/1/361.

such as being anxious, worrying often, and crying more frequently."[1027] Adolescents who experience school transitions may be particularly vulnerable to experiencing adjustment problems (e.g., academic failure, health risk behaviors, drug use, and complaints about body-related illnesses) following a stressful family event such as relocation.[1028]

Implementation of an identifier would not involve the creation of new information systems. It would merely require the modification of existing processes and systems. According to the Military Child Education Coalition, "97 percent of the school districts (with military students) have existing information systems that could be modified to include a military identifier."[1029]

Conclusions:
Consistent, national-level reporting on the performance and attendance of military dependent students is currently not available. Doing this inhibits efforts to better understand and support these children. Adding a military dependent student identifier to the ESEA datasets submitted annually to the National Center for Educational Statistics would provide the basic information needed to justify, inform, develop, implement, and evaluate policies and programs that specifically address and support military dependent students based on their increased risk of experiencing academic and behavioral challenges at school. National implementation standards are needed to ensure that data are consistent from one location to another. This identifier should be implemented in a way that avoids identification of individual students in aggregated reporting or tracking of individuals from one location to another.

Recommendations:

- A national military dependent student identifier should be implemented by requiring school data systems and processes that serve as sources for ESEA reporting to identify students who have parents or guardians who are active-duty members of the Uniformed Services. This identifier would enable consistent reporting on the attendance and academic performance of military dependent students across the United States, a capability that is not available today. This identifier should create a report-only subgroup in ESEA data sets and should also identify the branch(es) of the Uniformed Services for the active-duty parent(s) or guardian(s) of the military dependent student.

Implementation:

- 20 U.S.C. § 6311 should be amended to add students with at least one parent or guardian who is an active-duty member of the Armed Services (further disaggregated by branch of Service) to the categories of data required for reporting under the Elementary and Secondary Education Act.

[1027] Catherine P. Bradshaw, May Sudhinaraset, Kristin Mmari, Robert W. Blum, "School Transitions Among Military Adolescents: A Qualitative Study of Stress Appraisal and Coping," *School Psychology Review*, 39, no. 1, (2010): 84-105. *See also* Eric M. Flake, Beth Ellen Davis, Patti L. Johnson, Laura S. Middleton, "The Psychosocial Effects of Deployment on Military Children," *Journal of Developmental & Behavioral Pediatrics*, 30, no. 4 (2009): 271-278, abstract accessed November 10, 2014, http://journals.lww.com/jrnldbp/Abstract/2009/08000/The_Psychosocial_Effects_of_Deployment_on_Military.1.aspx.

[1028] Hamilton I. McCubbin, Richard H. Needle, Marc Wilson, "Adolescent Health Risk Behaviors: Family Stress and Adolescent Coping as Critical Factors," *Family Relations*, 34, no. 1, (1985): 51-62, accessed November 10, 2014, http://www.jstor.org/discover/10.2307/583757?uid=3739584&uid=2&uid=4&uid=3739256&sid=21104478986301.

[1029] "Issue 9: Assign an identifier for military children in education data systems," USA4Military Families Initiative, accessed September 17, 2014, http://www.usa4militaryfamilies.dod.mil/MOS/f?p=USA4:ISSUE:0::::P2_ISSUE,P2_STATE:9,DC.

- Any other regulations (including the Code of Federal Regulations, if applicable), instructions, directives, or internal policies necessary to conform to the recommendation described above should be reissued, updated, amended, retracted, or otherwise changed as needed.

4. THE COMMISSION'S PROCESS

With the Congress' mandates and the President's principles as keystones, the Commission has spent its time with a singular focus—developing a modern benefits package that is valued by, and protects the quality of life of, the 21st century force. The Commission's process was divided into three phases of work: the formation of the Commission, information gathering and data analysis, and deliberation and development of the Commission's recommendations. The results of our work are reflected in the June 2014 *Report of the Military Compensation and Retirement Modernization Commission: Interim Report* and in this final report.

COMMISSION FORMATION

The Military Compensation and Retirement Modernization Commission was established by the Congress in the National Defense Authorization Act for FY 2013.[1] The statute designated a nine-person Commission, with the Commission Chairman appointed by the President of the United States and two Commissioners each appointed by the majority and minority leadership of both chambers of the Congress. In May 2013, President Barack Obama appointed the Hon. Alphonso Maldon, Jr., former Assistant Secretary of Defense for Force Management and Policy and a retired U.S. Army officer, to chair the Commission. Congressional leaders appointed the Hon. Larry L. Pressler, the Hon. Stephen E. Buyer, the Hon. Dov S. Zakheim, Mr. Michael R. Higgins, General Peter W. Chiarelli, USA (ret.), Admiral Edmund P. Giambastiani, Jr., USN (ret.), the Hon. J. Robert (Bob) Kerrey, and the Hon. Christopher P. Carney. These Commissioners represented extensive depth and breadth of relevant experience, including former Senators, former Members of the House of Representatives, former Congressional Staff, Presidential appointees, and career military officers. The Commissioners had more than 14 decades of military service among them. They also collectively had more than 10 decades of military, personnel policy, budget, and legislative experience.

The Commission's staff of 50 personnel included Uniformed Services members, civil servants, and contractors, including eight current Active Component and Reserve Component Service members and nine military retirees. Five staff members were nonretired veterans of military service, and 13 were current or former military dependents. All Military Services except the Coast Guard were represented on staff. Nearly every program examined by the Commission was part of the personal experience of the Commission's staff and those closest to them.

The Commission's establishing documents are found in Appendix A, "Guiding and Enabling Documents." Additional information on the Commissioners, as well as the composition of the Commission staff is found in Appendix B, "MCRMC Composition."

[1] National Defense Authorization Act for FY 2013, Pub. L. No. 112-239, 126 Stat. 1632, 1787 (2013) (as amended by National Defense Authorization Act for FY 2014, Pub. L. No. 113-66, § 1095(b), 127 Stat. 672, 879 (2013)).

PRINCIPLES FOR MODERNIZING THE MILITARY COMPENSATION AND RETIREMENT SYSTEMS

Sections 671-680 of the National Defense Authorization Act for FY 2013 establish the Military Compensation and Retirement Modernization Commission. Section 674(c) requires the President to provide the Commission and the Congress with principles to guide the Commission's review and recommendations.

For over a decade, our men and women in uniform have participated in one of the most extraordinary chapters of service in the history of our Nation. They have served multiple tours of duty in distant, different, and difficult places. They come from all walks of life and all stations; Active, Reserve, and National Guard; serving together to protect our people, while giving others a chance to lead a better life. We owe each and every one of them and their families a tremendous debt of gratitude for their sacrifice, service, and patriotism.

Our Nation requires a strong military for our security and for the defense of American values and principles abroad. While we have successfully transitioned from a conscripted force to an All-Volunteer Force, sustaining this force requires responsive and prudent management, especially given the fiscal challenges we face as a Nation.

In conducting the Commission's review and in developing recommendations, you should ensure that the Commission examines all areas outlined in section 671(b)(1) and considers the full breadth of the military compensation and retirement systems, including health care programs, programs supporting military families, as well as programs of the Federal Government that may influence decisions of current and future members of the military to join and remain in the service of our Nation. The Commission's review should also consider and examine: our Nation's ability to sustain an All-Volunteer Force; the retention of our most experienced and qualified service members and the alignment of compensation and management to achieve this end; our current promotion system and associated force shaping tools; and our responsibilities to the American taxpayers. The review should provide recommendations for sustaining the long-term viability of the All-Volunteer Force in a fiscally responsible manner.

The Commission's recommendations and analysis for reforming and modernizing the military's compensation and retirement systems should be based upon the priorities outlined in sections 671(b)(2) and 674, and upon the longstanding principles of military compensation developed by the 5th Quadrennial Review of Military Compensation, as outlined below. The Commission's recommendations for change must grandfather any currently serving military members and current retirees in the current military retirement systems, but may allow currently serving members and current retirees the choice to change to your proposed retirement system.

The Commission's recommendations should also be guided by the following principles:

1. Manpower and Compensation Interrelationship. Military compensation and retirement systems are an integral part of the military's overall human resource management system and are key tools for recruiting, managing, and retaining the best military personnel. The military compensation and retirement systems should consider differences between service in the Military Services and service in other

Uniformed Services. They should also consider differences between regular and reserve military service and facilitate, as appropriate, the use of reserve service to support regular military forces.

2. Efficiency. The military compensation and retirement systems must attract, retain, and motivate a sufficient quantity of military personnel and those of the highest quality to sustain the All-Volunteer Force. While the military compensation and retirement systems should provide a reasonable standard of living, they should be fiscally sustainable and impose the least burden possible on the American taxpayer, consistent with maintaining a high-quality, All-Volunteer Force.

3. Equity. Military members, whether in the active or reserve components, must be allowed to compete equally for pay and promotion according to their own abilities and should receive equal pay for substantially equal work under the same general working conditions.

   a. To the extent possible, compensation should be comparable with pay in the American economy.

   b. Compensation should be competitive externally with private sector pay. It should also be competitive internally, to incentivize acquiring skills and accepting challenging assignments, to recognize hardships and danger, and to facilitate the distribution and separation of military members at appropriate times.

4. Effectiveness. The military compensation and retirement systems must be effective in times of peace, war, and other levels of conflict. These systems must be robust and assist in expanding and contracting the force as appropriate, including the seamless use of reservists and retirees.

5. Flexibility. The military compensation and retirement systems must be flexible to adjust to changing conditions in the American economy, to changes in the labor markets, and to changes in military force structure requirements. These systems should be capable of rapid and equitable adjustments. They should facilitate the mobility required to employ the force in time of war and in peacetime support the need of force managers to professionally develop future military leaders.

6. Motivation. The military compensation and retirement systems should encourage meritorious performance and the desire to seek and perform in positions of greater responsibility.

7. Fiscal Sustainability. The military compensation and retirement systems should be fiscally sustainable in order to ensure long-term certainty for service members and retirees.

8. Force Management. The military compensation and retirement systems must actively retain the most experienced and qualified service members and align compensation and benefits to achieve this end. Along with the review of compensation the interrelationship of the military's current promotion system should be reviewed, as well as associated force shaping tools.

Together, these principles form a useful foundation to guide the Commission's review and development of recommendations to modernize the military compensation and retirement systems.

INFORMATION GATHERING AND DATA ANALYSIS

To gain an understanding of their perceptions, priorities, and concerns regarding Uniformed Services pay and compensation programs, the Commission met with numerous groups of Service members, veterans, retirees, and their family members. It held several public hearings and town hall meetings across the country. The Commission and staff also met with key representatives of each of the Uniformed Services; numerous military and veterans service organizations; academic and research institutions; and private, commercial, and not-for-profit organizations. This comprehensive information gathering and data analysis phase provided important insights for the development of the Commission's recommendations to modernize pay and compensation.

PUBLIC HEARINGS AND TOWN HALL MEETINGS

The Commission conducted eight public hearings and eight town hall meetings between November 2013 and October 2014 at military installations throughout the United States. These meetings provided local military leadership and community representatives with opportunities to provide testimony on pay and retirement, health benefits, and quality of life programs. Members of the public, including Active Component, Reserve Component, and retired Service members and their spouses, were invited to speak to and ask questions of the Commissioners. The Commission also heard from representatives of advocacy groups and private-sector organizations with specific experience in Uniformed Services compensation issues.

Several public hearings illuminated issues specific to military health benefits. In San Antonio, Texas, the Commission heard from local medical commanders, national private health insurance companies, and a TRICARE regional contractor. In Portsmouth, Virginia, the Commission engaged with representatives of the local military and civilian medical communities. It gained perspective on the issues raised by coordinating DoD, Veterans Affairs, and civilian medical facilities. The Commission also learned about civilian best practices and noted those with relevance to military health care benefits.

Issues related to the daily needs and experiences of Service members and families were also a frequent topic at public hearings and town halls. At public hearings, the Commission heard testimony from representatives of the National Military Family Association, Blue Star Families, the Gold Star Wives of America, the Navy and Marine Corps Relief Society, and representatives of the Services' Morale, Welfare, and Recreation programs among other organizations. This testimony provided insight on aspects of Uniformed Services quality of life.

Transcripts of public hearings and town halls are available for download at www.mcrmc.gov.[2] *Comments provided to the Commission during town halls are incorporated into the summary of public inputs found in Section 4, "Comments to the Commission." A full list of Commission public hearings and town halls is found in Appendix C, "Commission Outreach."*

MILITARY INSTALLATION VISITS AND SENSING SESSIONS

To maximize face-to-face opportunities with Service members and their families, as well as gain a thorough understanding of the effects of compensation and benefit programs, the Commission and staff visited more than 55 military installations around the world. These installations included rural and isolated sites, so the Commissioners could understand the experiences of Service members and families assigned to those locations. The Commission and staff also visited overseas installations and, through various mechanisms, received feedback from deployed Service members and those serving at sea.

During visits to military installations, the Commission and staff met with installation and unit leaders, managers of key installation benefits and services, and groups of Service members and their families. Staff visited more than 10 military recruiting stations around the country to understand the role of military pay and benefits in recruiting efforts. Staff also visited a Military Entrance Processing Station to engage with newly accessed Service members, spoke with cadets from multiple Service academies, and visited U.S. Navy Transient Personnel Units in Virginia and California to gather perspectives on compensation, savings, and retirement programs. The Commission spoke with military recruiters, as well as new and prospective recruits regarding their knowledge of and value placed on various military benefits.

The Commission also visited the Captain James A. Lovell Federal Health Care Center (FHCC) in North Chicago, Illinois. It is the Nation's first FHCC, and a first-of-its-kind partnership between DoD and the Department of Veterans Affairs (VA). The Commission learned about the challenges faced as the separate Naval Hospital Clinic Great Lakes and the North Chicago VA Hospital transitioned to the FHCC. It gained an understanding of differing DoD and VA processes, including the ongoing difficulties with the development and implementation of a common electronic health record. Additional insight into military health care was gained during visits to two Army installations. Sensing sessions with dependent spouses at Fort Bragg, North Carolina provided valuable insight into the perception of health care quality at local military medical facilities and civilian health care providers. Similarly, the Commission's visit to Fort Drum, New York, provided information about the effectiveness of health care at a military base without a military treatment facility.

The Commission paid particular attention to the experiences of Service members and their families assigned to remote installations in service to the Nation. Commissioners and staff visited rural and semi-isolated installations throughout the country and overseas including, for example, Coast Guard Air Station Kodiak in Alaska and Fort Irwin, California (where a trip to the nearest town entails a nearly 80-mile round trip). The experience of personally traveling to such isolated locations gave the Commission

[2] Due to technical issues, the recording from the public hearing at MacDill Air Force Base in Tampa, Florida on May 22, 2014, was not available for transcription.

a valuable understanding of the unique challenges faced by many Service members and families, as well as the role of benefits in improving the quality of life for these populations.

Comments provided to the Commission during installation visits and sensing sessions are incorporated into the summary of public input found in Section 4, "Comments to the Commission."

SERVICE MEMBER SURVEY

The Commission conducted a broad survey of preferences for changes to various compensation programs to gather views directly from Active Component members, Reserve Component members, and retirees. The survey was sent to a random sample of 457,033 active-duty and Reserve Component Service members. The sample was designed so results were statistically representative of key demographic groups of the military populations (such as rank/grade, family status, deployment history, geographic location, etc.). Additionally, the Commission sent surveys to every retired Service member with a current e-mail address on file with the Defense Financial Accounting System—nearly 1.3 million military retirees. In total, the Commission received more than 150,000 completed surveys, substantially exceeding the minimum number required to achieve statistical precision for most subgroups.

The survey included data-gathering, modeling, and simulation to capture, validate, and analyze military compensation preference data. Using these tools and data, the Commission was able to gauge how selected subgroups of each target population valued current and alternative configurations of military compensation. Moreover, the modeling and simulation functions enabled the Commission to identify and compare reconfigured military compensation scenarios that showed promise in terms of perceived value to Service members and cost to the Government.

Comments provided to the Commission during the survey process are incorporated into the summary of public input found in Section 4, "Comments to the Commission." Additional information regarding survey methodology can be found in Section 5 "The Commission's Survey." Additional survey data is available at www.mcrmc.gov.

PUBLIC COMMENT

In addition to surveying current and retired Service members, the Commission wanted to receive as much feedback as possible on the topics of pay and retirement, health benefit, and quality of life programs. Multiple mechanisms were put in place to facilitate a comprehensive collection of public comments. The Commission established a website[3] on which it posted notices of its public hearings, visits to installations around the country, and meetings with public and private organizations. The website contained a mailing address, e-mail address, and a web form via which members of the general public could send comments to the Commission. As of October 2014, more than 2,200 letter, e-mail, or web-form comments were received and read by the Commission. The Commission also took numerous comments by phone.

[3] The Commission's website address is http://www/mcrmc.gov.

Comments provided to the Commission through these mechanisms are incorporated into the summary of public input found in Section 4, "Comments to the Commission."

GOVERNMENT ENGAGEMENT

The Commission met with representatives from 29 relevant Government agencies to gather their perspectives, data, and other inputs to inform the deliberation and decision-making process. Ongoing dialogue with specific Government agencies, including DoD and VA, facilitated various aspects of the Commission's work in all phases of its process.

In particular, the Commission repeatedly met with the Uniformed Services' chiefs of manpower and personnel affairs, comptrollers, and Reserve Component affairs directors. It also met with each of the Services' and the Joint Staff's Senior Enlisted Advisors on multiple occasions. Through these meetings, the Commissions gained a better understanding of the Services' recruiting and retention requirements. It also had an opportunity to discuss issues related to the implementation of particular benefit programs and to learn from the Services' best practices regarding benefit administration. These meetings also helped the Commission gain an understanding of issues and concerns of enlisted Service members.

The Commissioners engaged directly on multiple occasions with the Surgeons General of the Armed Services to gain an in-depth understanding of the requirements and administration of the military health care system. The Surgeons General and other DoD officials provided important context for the Commission's analysis of the military health care benefit and offered knowledgeable insight into potential courses of action, particularly as they relate to medical readiness. The DoD Office of the Actuary provided valuable information on existing compensation and retirement programs, such as regular and disability retirement and the Survivor Benefit Program. Meetings with the Office of Personnel Management,[4] Federal Retirement Thrift Investment Board, the Pension Benefit Guaranty Corporation, the Consumer Financial Protection Bureau, and the Financial Literacy and Education Commission, among others, provided the Commission opportunities to explore lessons learned and best practices regarding other Government programs.

To best understand issues surrounding the grocery and retail benefit, the Commissioners and staff met on multiple occasions with the directors and senior staff of the Defense Commissary Agency and of the three military exchanges organizations. These meetings allowed the Commission to better understand the varying approaches to providing military retail benefits, such as differences in how each organization serves its respective customers, how they interact with senior leadership of the military services, and how they integrate with the private sector. Representatives of each agency provided perspectives on a variety of proposals to modify their organizations, as well as their cooperative efforts.

A complete list of the Commission's Government engagements is found in Appendix C, "Commission Outreach."

[4] The Office of Personnel Management provided support for the Commission's analysis; however, such support does not represent an endorsement of, or suggest any opinion on, the report, study, or recommendations.

FOREIGN MILITARIES

The Commissioners and staff met with representatives of the British Armed Forces and the Australian Defence Force to discuss several issues related to pay and retirement. The military in the United Kingdom recently introduced a reformed pay and retirement system. Staff discussed the lessons learned from the development and implementation of the new system with British military leadership, noting areas of similarity and differences that could inform the Commission's work. The Commission held similar discussions with officials from the Australian Defense Force regarding financial education and training provided to their members.

Engagements with foreign militaries also offered important insights into issues concerning the military health benefit. Commission staff met with the British Armed Forces to gain an understanding of the lessons learned during the United Kingdom's move from a traditional military medical command and control structure to a Joint Medical Command. The staff also met with the German Bundeswehr Medical Service to discuss Germany's transition to a single medical service, the cultural difficulties involved in such a transition and the resulting structure and responsibilities within the new organization. Officials in both countries explained how their military medical forces maintain critical medical skills and how they interact with their respective civilian health care systems.

A complete list of the Commission's foreign military engagements is found in Appendix C, "Commission Outreach."

MILITARY SERVICE ORGANIZATIONS AND VETERANS SERVICE ORGANIZATIONS

The Commission benefitted from extensive consultation with many military service organizations (MSOs) and veterans service organizations (VSOs). These groups represent the Service members, veterans, retirees, and their families who are directly affected by the work of this Commission. They actively work within legislative and policy circles to preserve and improve the value of military pay and retirement, health care, and quality of life benefits. The assistance of these groups, including their interactions with the groups' own membership, has been invaluable to the Commission. Dialogue with MSOs and VSOs improved the Commission's knowledge of their issues and allowed it to understand the groups' positions and priorities. In particular, Senior Commission staff met individually with the chief executive officers and directors of legislative and government affairs for more than 25 members of the Military Coalition.[5] More than half of the Coalition's members participated in public hearings and executive sessions. Additionally, the Coalition's subcommittees on Pay and Retirement and Health Care engaged directly with Commission staff throughout the life of the Commission. Interactions with MSOs and VSOs allowed the Commission to gather key insight into the issues and concerns most pressing to the Service members, retirees, veterans, and their families. They also provided important feedback

[5] The Military Coalition is "a group of 32 military, veterans, and uniformed services organizations in joint pursuit of [common] goals" related to military recruiting, retention, compensation, and benefits, among others. "Who We Are," The Military Coalition, accessed October 8, 2014, http://www.themilitarycoalition.org/whoweare.htm.

on the aspects of a modernized compensation system that beneficiaries would find most valuable.

A complete list of the Commission's organizational engagements is found in Appendix C, "Commission Outreach."

PRIVATE-SECTOR ORGANIZATIONS

The Commission and staff met with representatives of numerous nonprofit and private-sector organizations to gain knowledge of topics under exploration. These meetings were informational in nature, designed to gain necessary context for some programs and benefits in relation to private-sector standards, best practices, and lessons learned. For example, the Commission met with companies such as USAA and Prudential to discuss facets of savings and retirement planning. The Society of Human Resource Management provided insights into current experiences with, and historic trends regarding, employer-sponsored retirement plans in the private sector. Members of the staff also met with individual subject-matter experts on issues relevant to pay and retirement, including personal finance experts, who offered opinions regarding financial literacy education.

The private sector also provided valuable context and perspective for the Commission's examination of the health care benefit. The Commission met with multiple organizations representing collaborative efforts between military and civilian medical communities. These organizations included the Fort Drum Regional Health Planning Organization (RHPO) in New York and the University Medical Center of Southern Nevada in Las Vegas, Nevada. The RHPO is a partnership that enables a synchronized health care system in a military community without a local military treatment facility. In Nevada, military and civilian medical communities have partnered to provide a trauma training environment for military medical personnel. The Commission and staff also met with representatives of the Sacred Heart Health System in Pensacola, Florida, and several private health insurance companies, to gain a deeper understanding of how civilian providers view the provision of health care to military beneficiaries under TRICARE. Additionally, staff met with the Children's National Health System and representatives of the TRICARE for Kids organization to become better acquainted with the needs of military children, how the current system of TRICARE works, and where difficulties and challenges are perceived in relation to health care for military child dependents.

To learn about issues related to military grocery and retail programs, Commission staff met with multiple retail associations including the American Logistics Association, the Armed Forces Marketing Council, and the Military Produce Group. Staff also met with individual vendors such as Procter & Gamble, Coca-Cola, and Kraft. The meetings helped the Commission better understand the perspectives of these types of organizations with respect to the commissary and exchange systems. They also provided valuable information on the ways in which military resale organizations differ from commercial grocers, department stores, and discount outlets.

A complete list of the Commission's private-sector engagements is found in Appendix C, "Commission Outreach."

THINK TANKS AND RESEARCH SUPPORT

The Commission met with more than a dozen policy, research, and academic organizations. Each organization had dedicated substantial time and resources to studying the complexity of the Service's compensation system. Insights gained during these encounters informed multiple Commission efforts, including the development of the Commission survey, and directly contributed to the deliberations of the Commissioners. For example, the Commission and staff visited the Office of Economic and Manpower Analysis at the United States Military Academy at West Point on multiple occasions to discuss issues related to pay and retirement. The Chief Executive Officer of the Institute for Defense Analyses (IDA) spoke to the Commission in a public hearing and an executive session, offering insights on Service compensation policy.

The Commission also contracted with several organizations for research, modeling, and analysis support. The Commission contracted with RAND Corporation (RAND) to use its Dynamic Retention Model (DRM), a proprietary modeling capability designed to support workforce-management policy decision-making. The use of the DRM enabled the Commission to assess potential effects on Service force profiles, including accession and retention, due to alternative changes to pay and retirement. RAND also provided research and cost analysis in support of the Commission's examination of pay and retirement. IDA and CNA Corporation (CNA) prepared multiple briefings to support the Commission's analysis of the military health benefit. IDA delivered a report analyzing aspects of the veterans' disability benefit and another providing a comparison of military and private-sector hospital costs. CNA provided an analysis of military hospital workloads. Additionally, both organizations performed specific research and analysis tasks regarding various health benefit options considered by the Commission.

LEGAL AND POLICY REVIEW

As directed by statute, the Commission performed a thorough review of current Uniformed Services compensation and benefit programs; relevant laws, regulations, and policies; associated appropriated Federal funding; and historical and contextual background for the Uniformed Services' compensation and benefit programs across the Federal Government.[6] The results of our review are found in the *Report of the Military Compensation and Retirement Modernization Commission: Interim Report.* Throughout all phases of our work, the Commissioners and staff received legal guidance and support from the Commission's Office of the General Counsel. This support included review of laws and policies, legal interpretation, and legal review of the Commission's work products, final recommendations, and this final report.

DELIBERATION AND DEVELOPMENT OF RECOMMENDATIONS

The Commission's deliberation and recommendation development process was ongoing and iterative. The Commission held regular executive sessions in Arlington, Virginia, increasing in frequency over the life of the Commission. These executive

[6] National Defense Authorization Act for FY 2013, Pub. L. No. 112-239, 126 Stat. 1632, 1787 (2013) (as amended by National Defense Authorization Act for FY 2014, Pub. L. No. 113-66, § 1095(b), 127 Stat. 672, 879 (2013)).

sessions offered the opportunity for the Commission to hear testimony from and engage in meaningful discussion with many of the stakeholders discussed above, including Government agency officials and members groups representing active-duty, Reserve Component, and retired Service members and their families. The executive sessions allowed for regular face-to-face discussion and deliberation among the Commissioners, including decision-making on final recommendations.

With each piece of information gathered during the Commission's process, the preferences, priorities, and requirements of the 21st century All-Volunteer Force came into sharper relief. The discussions provided the Commission with the necessary insights and information to achieve its mission: developing a Service-member focused compensation package that preserves or improves value for the men and women who serve and have served our Nation, and the families that support them.

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5. THE COMMISSION'S SURVEY

To conduct a comprehensive review of military compensation, the Commission needed to gather opinions directly from current and retired Service members. As described in Section 6 of this report, the Commission gathered comments from town halls, sensing sessions, its website, and other means. Although that input provided valuable insights into the issues of predominant interest to Service members, the Commission wanted to ensure it gathered opinions from a representative cross-section of all Service members. For that reason, the Commission conducted a broad survey to gain feedback on aspects of military compensation from a large, statistically representative sample of current and retired Service members.

Although DoD and the Services maintain an extensive library of survey research on a wide variety of topics, including compensation, those surveys focus on satisfaction with current components of compensation. They do not provide information on whether Service members would prefer compensation programs different than those in the current compensation system. To gather such information, a preference-based survey was required. Preference-based survey methods have been researched extensively for decades[1] and can be used to quantify the incremental value associated with a change in a benefit, as well as the total perceived value for a combination of benefit changes.

SURVEY SAMPLE DESIGN

The Commission contracted for the design, implementation, and analysis of a preference-based survey.[2] As shown in Table 22, the target populations for the survey consisted of subpopulations for Active Component members, Reserve Component members, and retirees. The sample was further stratified so results were statistically representative of key demographic groups of the military populations (e.g., rank/grade, family status). The Commission chose these stratification variables to provide results that were relevant to its deliberations. The definitions for these variables match those developed and used by the Defense Manpower Data Center (DMDC) in drawing samples for its own use on behalf of DoD clients. The size of each sample was more than sufficient to provide the number of completed surveys required to have a statistically valid sample. DMDC provided e-mail addresses for these sample groups based on particular specifications.

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[1] Substantial research has been conducted on the subject of preference measurement, including designs for the data collection instruments, choice of analytical methods, and type of software to engage participants in adaptive, interactive sessions. *See, for example,* P.E. Green, A.M. Krieger, and Y. Wind, "Thirty Years of Conjoint Analysis: Reflections and Prospects," *Interfaces*, 31, no. 3, (2001): S56-S73. *See also,* Ryan O. Murphy and Kurt A. Ackermann, *A Review of Measurement Methods for Social Preferences*, accessed April 4, 2014, http://vlab.ethz.ch/svo/SVO_rev_paper.pdf.

[2] National Capital Contracting Ltd. (NCC) served as the prime contractor and project manager; True Choice Solutions Inc. served as a subcontractor to NCC and provided expertise to develop and field a web-enabled interactive survey instrument, along with specialized survey analysis tools; Mathematica Policy Research served as a subcontractor to NCC and supported the development of the sample design and related statistical matters. The consortium of contractors supporting the survey work have published a report that documents in considerable detail the design of the survey samples, including measures of statistical precision used to estimate minimum sample sizes for reporting results representative of the broader military populations.

Table 22. Key Features of the Sample Design for Commission Survey

Target Population Groups	Sampling variables					Target Population Group Size	Total Sample Size to Contact
	Variables used to stratify the samples	# Strata per Variable	Total # of strata	Other variables retained in the samples	# Strata per Variable		
Active duty	Family status Pay group Deployment status Region/duty location	4 6 2 2	96	Service Gender	5 2	1,394,807	180,765
Reserve	Family status Pay group Deployment status	4 6 2	48	Component Gender	4 2	834,621	276,268
Retiree	Family status Age group Rank group Duty status	4 3 2 2	48	Service Gender Retire Type	5 2 2	2,142,189	1,273,337

SURVEY IMPLEMENTATION

The Commission sent the survey to a random sample of 457,033 active-duty and Reserve Service members and to nearly 1.3 million military retirees.[3] In total, the Commission received more than 150,000 completed surveys, substantially exceeding the minimum number required to report results for most subgroups with sufficient statistical precision.

The data collection took place from July through October 2014, allowing about 6 to 8 weeks for each target population group to respond. To maximize response rates, sample members from the Active and Reserve Components were contacted several times with notices prompting them to take the survey. The retired population was contacted only once because the Commission sent the invitation to more than a million e-mail addresses.

Sample members received an e-mail invitation to participate in the survey that directed them to a website hosting the preference-based analytic tool. The survey typically took respondents 20-25 minutes to complete. Unlike more traditional surveys that employ either some form of multiple-choice or Likert-type scale (often 1 to 5) to capture respondent information, this survey employed a web-enabled interactive interface for which respondents moved sliders, shown on their computer screen, to express their preferences for various alternatives presented. Figure 24 shows an example of how a question item is portrayed on the user interface.

[3] The Commission decided to contact all 1.3 million (approximate) military retired with a viable e-mail address and invite them to participate (this is about 60 percent of the 2.2 million on the military retired rolls) because the military retired population is rarely contacted by DOD, VA, or other agencies to gather their views on important topics.

Figure 24. User Interface for Commission Survey

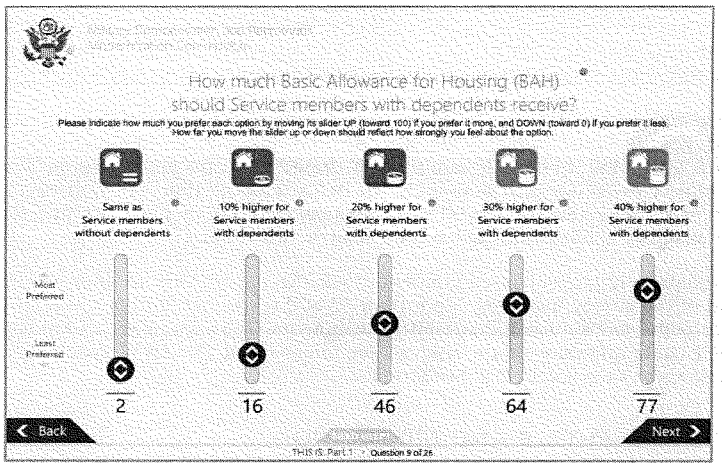


Table 23 shows the compensation topics covered in the survey. The basic survey instrument's content was modified for each of the three Service member populations.

Table 23. Topics Addressed in Commission Survey

Pay and Retirement	Health Care	Quality of Life
• Pay Increases	• Monthly Premiums	• Education
• Retirement	• Copayments	• Commissary
• Allowances	• Provider Arrangements	• Child Care
	• Service Delivery	• Housing
		• Other MWR

NOTE: Question items vary somewhat for Active, Selected Reserve, or retiree surveys

Part one of the survey asked participants to express their degree of preference for each of several alterative levels or features of a particular benefit. In part two of the survey, respondents were asked to rate the importance of these same benefit features. This second step added another layer of information that, together with part one, essentially provided an "importance-weighted preference metric" for each benefit feature in the survey.

Part three presented a series of six to eight screens prompting participants to express their relative preference between two pairs of benefit features. The content captured from this activity in essence provided an internal consistency check on each respondent's choices in parts one and two of the survey. After completing this third step, the survey program can flag responses that contain logically inconsistent results. No survey responses were excluded from the Commission's survey for this reason.

Part four was a standard Likert-type, scaled-satisfaction exercise. It presented each respondent with a series of benefit features based on what was rated as important in the respondent's previous answers. Respondents were asked to rate their satisfaction with the current benefit feature (for example, the BAH with-dependents). This part provided a third layer of detail, and it gave the Commission insight into how satisfied or dissatisfied the respondent was with the benefit feature as currently offered.

Part five captured self-reported information by respondents on six to 10 attributes. This section included some items already known through administrative records provided by DMDC when the sample was drawn such as family status and grade group (officer or enlisted). It also included items such as time to travel to a military facility for services and the type of health benefit plan family members use, data that cannot easily be obtained through administrative record files.

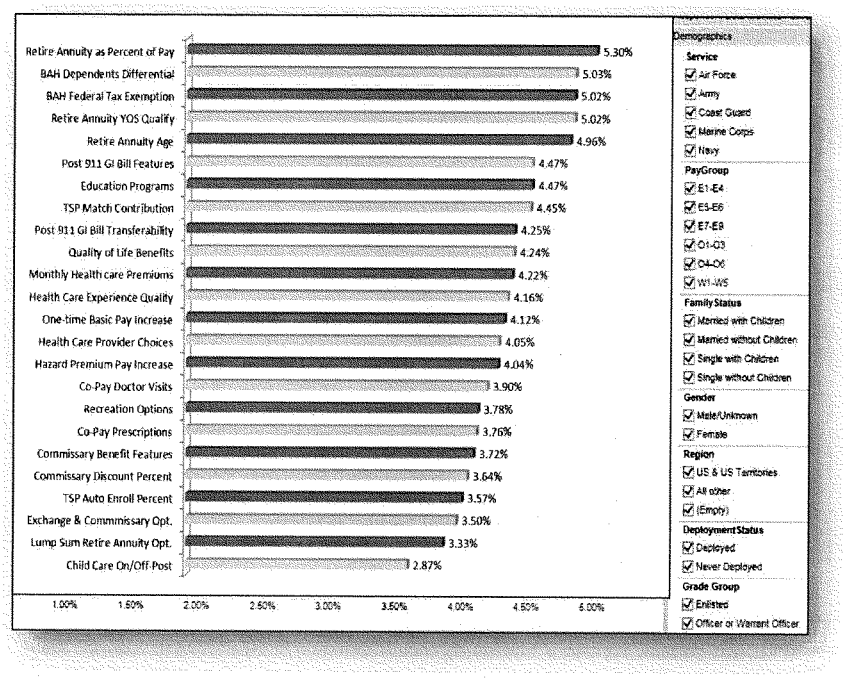
Approximately 20 percent of respondents took the opportunity to offer comments at the end of the survey (part six). More than 32,500 respondents from the three Service member populations surveyed submitted comments. These comments were separately analyzed using qualitative data analysis techniques and the aid of special qualitative data management software (see Section 6).

SURVEY ANALYSIS AND MODELING

The survey process has two major components: the data-gathering (survey) component and a back-end modeling and simulation component. After the data were gathered and weighted, the modeling and simulation functions allowed the Commission to explore and compare reconfigured military compensation scenarios in terms of perceived value and cost for the target populations and their subgroups.

Figure 25 shows elements of the survey analysis dashboard used to examine the collected survey data. The dashboard was available to the Commission and staff for exploring various compensation and benefit alternatives. The panel on the side enables the user to select and display results for various subgroups of the surveyed population. The dashboard then displays the results for the type of analysis chosen. The center panel on Figure 25 illustrates a simple rank ordering by Relative Importance (RI) for benefit features surveyed for the Active Force.

Figure 25. Dashboard Depicting Relative Importance of Various Compensation Features (Sum = 100%)



RELATIVE IMPORTANCE AND PERCEIVED VALUE METRICS

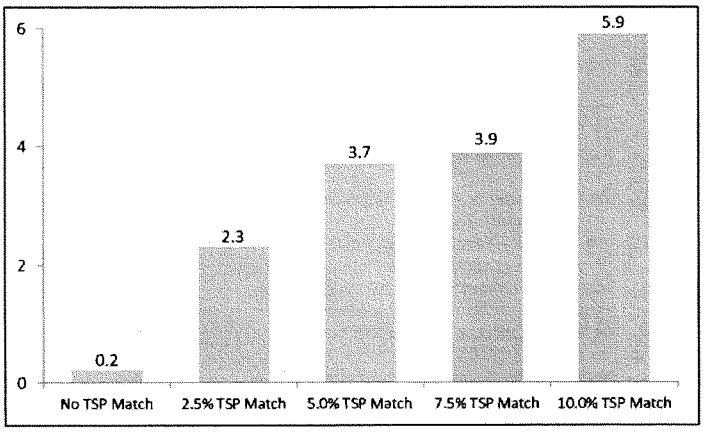
Figures 26 and 27 show examples of results from the survey analysis dashboard. All the question items in the survey show both relative importance and the corresponding perceived value measures.

Relative Importance (RI) Measure

The row of bars depicted in Figure 26 shows how Service members (total AC force) assigned levels of importance to increases in the Thrift Savings Plan (TSP) match if it were offered by DoD. Relative Importance (RI) measures the degree (from 0-10) of importance-weighted preference for each benefit feature in the survey. As depicted in Figure 26, offering a 5 or 10 percent TSP match generates 3.7 and 5.9 RI units (59 percent increase), respectively. Thus, doubling the match from 5 to 10 percent produces a less-than-proportional increase in this RI metric. It appears that Service members attach very little additional importance (from 3.7 to 3.9 in the RI metric) when increasing the DoD match from 5 to 7.5 percent. The implication is that offering a 7.5 percent match—relative to a 5 percent match—is not worth the additional cost

when Service member perceptions are taken into account. This pattern of nondisproportional change in output (such as the 59 percent improvement in RI metric when doubling the TSP match) is a common phenomenon when measuring consumer preferences. Importantly, this standard RI measure enables direct numerical comparisons for alternative levels of a specific benefit feature, as well as comparisons across all 24 benefit features in the survey.

Figure 26. Relative Importance by Active-Duty Service Member: TSP Matching



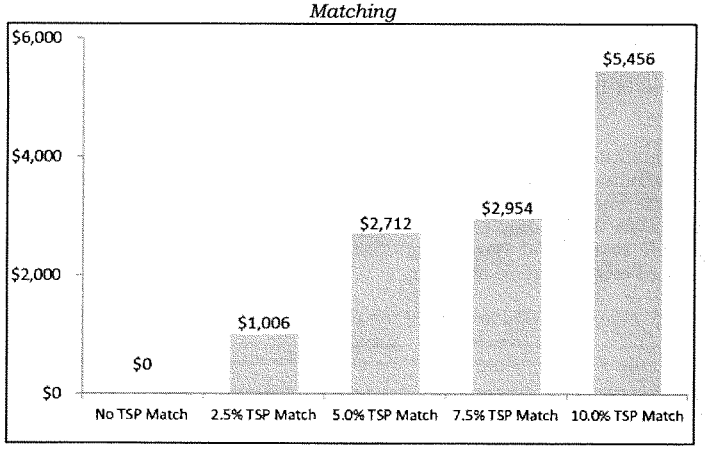
Perceived Value (PV) Measure

The row of bars in Figure 27 provides the equivalent result in terms of Perceived Value (PV). This variable measures how much each alternative benefit (or each level for the benefit) is worth in dollar terms. More specifically, the graphic illustrates how much active-duty Service members value each TSP match percent in the form of an equivalent permanent pay raise.

As this row of bars in Figure 27 shows, a 5 percent TSP match is perceived by active-duty Service members (average across the active force) as worth the equivalent of a $2,712 permanent pay raise. Note, as well, that increasing the TSP match from 5 to 7.5 percent generates only a very modest change in perceived value from $2,712 to $2,954 (equivalent to a permanent pay raise).

An important inference from such findings is that the costs to deliver a benefit can differ markedly from the worth a person perceives it to have. These PV metrics become especially meaningful when the actual (per capita) cost of providing a benefit feature is compared to its value as perceived by Service members.

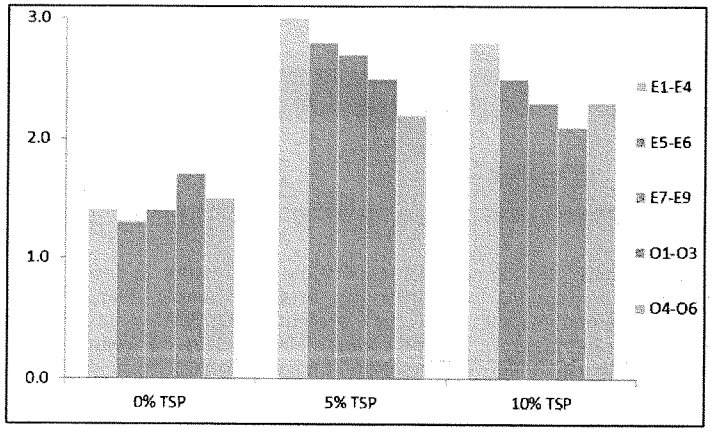
Figure 27. Active-Duty Service Members' Perceived Value: TSP Matching



Comparisons among Subgroups of the Population

The survey results can be examined for a variety of population subgroups. Figure 28 shows results for the question item on how Service members value alternative differentials for the automatic withholding of contributions to TSP.

Figure 28. Relative Importance by Active-Duty Service Members: 0, 5, and 10 percent Automatic TSP Contributions to TSP by Pay Group

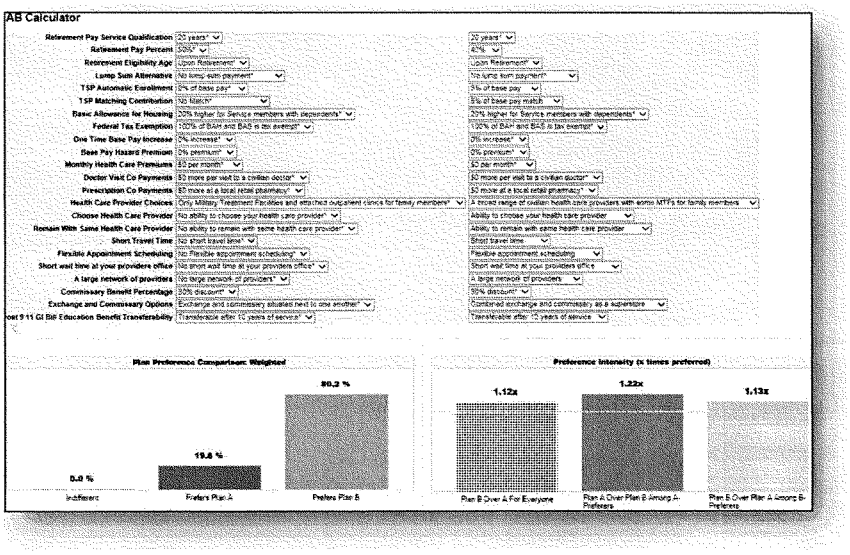


COMPARING ALTERNATIVE COMPENSATION CONFIGURATIONS

In addition to examining benefit features one at a time as shown in the previous sections, the survey analysis dashboard also provides the capability to analyze combinations of benefit features, and then compare one package of benefits against another.

Figure 29 illustrates this capability within the dashboard. The dashboard lets the user work with several benefit features at once to compare the results in terms of Service member preferences for one combination of benefit features compared to another combination. In this example, Plan A (left panel) shows the settings for the current compensation system and Plan B (right panel) shows the settings for the Commission's recommended compensation system.[44]

Figure 29. Illustration of the Compensation Plan Comparison Capability

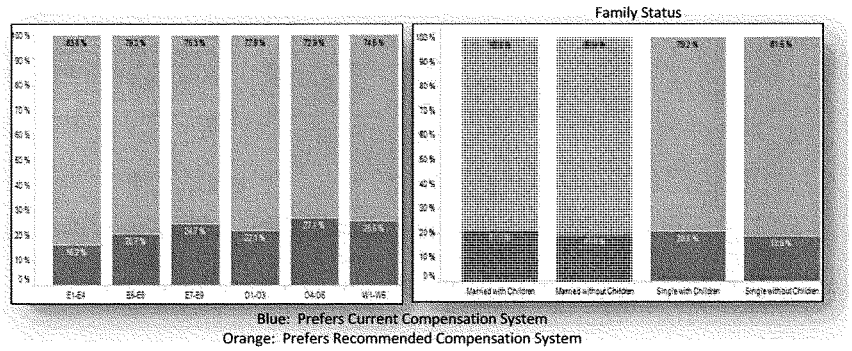


On the bottom half, the leftmost columns show the results in terms of aggregate preference for one plan (A) to another (B). In this example, Plan A (the current compensation system) is preferred by 19.8 percent of the Service-member population and Plan B (the Commission's recommended alternative) by 80.2 percent. The three columns on the far right show a measure of intensity for Service members' preference for the respective plans.

[44] The figure represents a close approximation of the preferences of the Commission's recommendations, because the survey did not address all compensation recommendations of the Commission.

Plan comparisons can also be examined by demographic subgroups. Figure 30 illustrates results of relative preference between these two compensation systems for two subpopulations defined by pay grades and family status.

Figure 30. Active-Duty Service Members' Preferences Between the Current and Recommended Compensation Systems



This feature enables the user to explore what the effect on preferences may be across key groups within the military populations. In this example, those in pay group E1-E4 exhibit a relatively greater preference for Plan B (orange portion of the columns). Because the E1-E4 subgroup comprises 43 percent of the active force, this difference in preference may be an important consideration.

The Commission considers this preference-based survey approach highly useful in identifying compensation plans that appeal to a broad cross section of Service members and that are fiscally sustainable. This survey, along with the compensation system analysis described in this report, guided the Commission's deliberations.[5]

[5] In the interests of openness and because the data results far exceed what could reasonably be included in this Final Report, the Commission is making the entire data base of survey results available for examination and analysis on the MCRMC website: http://www.mcrmc.gov.

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6. COMMENTS TO THE COMMISSION

All comments to the Commission—including more than 35,000 letters, e-mails, web submissions, town hall comments, and survey free-response comments—were reviewed by Commission staff, with specific areas of concern identified for further consideration in the Commission's deliberation process.[1] In addition, transcripts from town hall meetings and public hearings were thoroughly reviewed by Commission staff. Feedback was regularly reviewed for emerging trends, areas of repeated concern, and general sentiment. All passages and recurrent themes relevant to the work of the Commission were identified and forwarded to the appropriate Commission research teams.

A sampling of comments is included in this chapter. The quotations below have been selected to both represent trends in public feedback to the Commission, as well as the range of sentiment expressed. Other than minor edits for length and to correct typographical or grammatical errors, no changes have been made to the content or substance of any comment.

Overarching Comments and Concerns about Reform

Comments to the Commission overall struck a cautious and, at times, skeptical tone. Respondents from all sectors and across all methods of communication expressed concerns that the process of modernization could unfairly affect current and former Service members and their families or result in a package of pay and benefits that does not adequately compensate members for their service to the Nation.

> *I'm not fully confident that a civilian commission is the best way to determine cost-saving measures in relation to military service. I certainly understand the need to reduce defense spending (and I feel my responses in this very thorough survey will indicate that), but some of the suggested measures don't consider the unique hardships that military members and families must endure when compared to the other 99 percent of the population.*[2]

> *My fear is that this commission is soliciting input in the hopes that current service members, those of the younger, non-long-term-thinking variety, will provide input that asks for more compensation now and puts less emphasis on enduring compensation.*[3]

> *The conversation related to the reduction of pay and services is disturbing. The idea that I place the well-being of myself and my family in the care of*

[1] Section 4 details the Commission's Process and Section 5 discusses the design, methodology, and administration of the survey.
[2] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[3] MCRMC letterwriter, comment form submitted via MCRMC website, June 16, 2014.

> *the Government at the cost of the rights and privileges afforded to civil society requires commitment on both parts. Furthermore, when the right to refuse a directive becomes punishable, the obligation by society at large should be equally burdensome.*[4]

> *Service members who have served at least 20 active-duty years, have sacrificed their lives, bodies, families (wife and kids to not being around for parents and grandparents' late years), etc. and should be rewarded with the promised compensation of retirement pay and medical benefits.*[5]

> *I would ask that you honor the Government's commitments and promises to those who have served and protect their retirement and medical care entitlements. Many promised benefits have been taken away over the years due to cutting costs.*[6]

> *All this talk about "reforming" benefits causes a great deal of stress and uncertainty...I didn't expect to be worrying about stuff like this after serving for 30 years.*[7]

Numerous respondents also expressed satisfaction with some or all aspects of the current compensation system, and many stated a desire to minimize any changes to a system with which they were largely satisfied.

> *Overall my spouse and I are satisfied with the current military benefits provided. The commissary, exchanges, MTFs, and MWR facilities are a very important part of military cohesion and unit readiness and should all remain intact. Only changes should be to enhance or improve upon these services provided to military members.*[8]

> *[I am] very happy with my benefits, just wish we could get a raise more often to help with the cost of living adjustments.*[9]

> *I do not think the current system is broken. I have been retired for 9 years, have received excellent medical care, and I am very happy with my base access, commissary, and exchange.*[10]

> *I am very happy with the medical care I receive at my MTF. I also consider the commissary and exchange benefits to be among the most important for both active-duty military and retirees.*[11]

> *[I] am very happy with current benefits. My family made large sacrifices (we endured a 5+ year separation at 25-year point in my 30-year career) to pay off a home near a base and medical treatment facility. We would be*

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[4] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[5] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[6] MCRMC letterwriter, comment form submitted via MCRMC website, October 30, 2013.
[7] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[8] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[9] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[10] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[11] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.

extremely resentful if the value of those sacrifices were eroded due to changes in current benefits.[12]

Feedback reflected concerns that potential cuts and reductions in compensation and benefits should only happen within the context of a larger conversation about Government spending, and that reductions in Uniformed Services' compensation represent an attempt to resolve larger budgetary concerns disproportionately on the backs of the Services.

[Service members and families] are often the most abused when the country finds itself overspending. The Government likes to dip into the accounts of those who served the nation. If you are to cut benefits, it would be very helpful if it included a provision to prevent the Government from using the funds promised to veterans for other purposes.[13]

I am very happy with the benefits as they are. To keep with the promises we were made, our benefits should NOT be eroded. Increases in copays and premiums that match our annual COLA are more than reasonable. Other savings should come from cost cutting in the bloat of other Government spending.[14]

As far as I'm concerned, the Federal Government is guilty of a breach of contract. For the majority of my 24 years in the Air Force, I struggled to make ends meet for me and my family. I fulfilled my portion of the contract, but the same Government that I gave my all to protect is trying to screw me and all the others out of our EARNED benefits.[15]

I feel the major problem is the Governmental DEBT that is presently being solved by severe cuts to the Military.[16]

I am very happy with the current military retirement system, and it worries me that all the talk and budget problems will cause the Government to break faith with current and future retirees.[17]

The fastest way to undermine morale among military personnel is to make a promise that will not be kept....The military is not a laboratory in which to conduct experiments to find solutions to the problems of a dysfunctional civilian society.[18]

Some comments from current and former Service members expressed an understanding of the need for reform and modernization of the current compensation and benefits structure, but stated that any reform should be fair and sensitive to the unique concerns of military Service members and their families.

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[12] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[13] MCRMC letterwriter, comment form submitted via MCRMC website, August 7, 2014.
[14] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[15] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[16] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[17] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[18] MCRMC letterwriter, comment form submitted via MCRMC website, April 7, 2014.

> *The decisions you have to make are hard and will not be popular, as the system costs so much to maintain, but please be considerate and do your best....Thank you for your efforts on this very important issue.*[19]

> *I'm very happy with the retirement plan I signed up for, but can see that it is probably not a sustainable option for the future, so I'm happy that you are looking into options for future retirees (as long as they get the retirement benefit that they sign up for).*[20]

> *Although I think everyone would like to have more entitlements, we must balance that with the overall cost. I risked my life in war and now feel the Army promises were lived up to the maximum extent. I am very happy with the current system.*[21]

> *I just want a fair and comparable compensation package [commensurate] to the civilian sector, the number of hours I work, along with the sacrifice me and my family make on a daily basis.*[22]

COMMENTS REGARDING PAY AND RETIREMENT

Feedback to the Commission encompassed the full breadth of pay and retirement, offering diverse comments from all perspectives, including that of active, Reserve Component, veteran, and retired Service members.

> *When facing 20-plus years of relocating, and extended periods of isolation from family, it takes a significant group of benefits to compensate for the loss of stability a military career brings. When every day you voluntarily place your life on the line, your compensation cannot be compared to the average office or retail worker who goes home to the same house for years on end. The promise of lifetime medical coverage and a retirement check helps to compensate for inequities suffered by the average military person....I cherish my experiences in my 23-year career, but had the promise of the retirement pay, medical coverage, and other benefits such as the commissary not been there, my decision to continue after 4 or 6 years would have been much harder and probably would have been different.*[23]

> *Retirement is the most important thing. If you take away retirement, then you are going to get rid of the most valuable people in the military, quickly.*[24]

> *Above all else, if my retirement is changed, I will get out as soon as possible with no second thoughts.*[25]

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[19] MCRMC letterwriter, comment form submitted via MCRMC website, August 7, 2014.
[20] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[21] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[22] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[23] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[24] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[25] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.

> *I don't think that we should change anything for retirement. A significant portion of the reason that I have decided to stay in is the option to retire after only 20 years of work while I am still young enough to enjoy the childhood of my (future) children. If I had to wait until age 65, had to receive a lump sum and then wait until age 65, or had to work longer before I could retire, then I would have gotten out of the Army a lot sooner.*[26]

> *Reducing in any way the retirement pay or benefits of those who have served with honor and retired is a breach of faith. Doing it to military retirees is still immoral and unethical [and] reducing or changing retirement plans for active-duty members, particularly those in initial obligated service, is morally [unreasonable]...any reduction in compensation or change in compensation structure will alter the willingness of our best and brightest to commit to careers.*[27]

Many of the comments regarding potential changes to compensation supported retirement savings for those who do not serve the 20 years required for retirement benefits eligibility under the current system.

> *There is no reason that 85 percent of the military separates with nothing to show for it when you could do a standard retirement system with increasing contributions the more senior you get.*[28]

> *There should be some type of retirement or IRA for those individuals who leave the military before 20 years. Twenty years is the gold standard for service to receive a retirement benefit. In a 20-year career you can expect a combat deployment, peace keeping mission, or unaccompanied tour. The toll is enough that after 20 years you should be able to enjoy the financial stability that a retirement pension would offer.*[29]

> *What needs to be addressed is personnel who either voluntarily, or otherwise, are separated. They should have a matching TSP/401(k) because walking away with nothing after 10 years of service is wrong...I know of no company that doesn't let you leave with your 401(k) contributions and vesting after 5 years.*[30]

Other comments noted the value of retirement savings programs—and encouraged potential DoD matching of retirement contributions—as an additional savings tool, regardless of whether Service members pursue a traditional retirement track.

> *Mandatory TSP enrollment is a good idea, with matching Government contributions, but the military retirement system should not be changed.*[31]

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[26] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[27] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[28] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[29] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[30] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[31] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.

> *There was no Thrift Savings when I served, and I did not save! In my USG jobs I participated in TSP fully and saved a lot in 18 years. Young soldiers need the push of a required percentage contribution to TSP, and a substantial match will, over a 20-year career, make all the difference. The required contribution should be the same as the match.*[32]

> *I think that the current military retirement system is broken and unsustainable. The Army needs to adopt some kind of TSP matching that encourages Soldiers to make responsible saving decisions with their own money...[and with] proper financial counseling. The system sets people without financial literacy up for failure.*[33]

Some feedback regarding pay and retirement addressed more specific concerns and suggestions for modernizing the current compensation structure.

> *I am pleased with my military retirement structure as it stands today; however, I also see the need for a restructure....I feel strongly that 50 percent should be a minimum, but with more individuals retiring at a "working age," I could see a small lump sum, with reduced annuities, and full restoration at 65 as a viable alternative. Although the retirement is not a "living wage," the retirement pay, specifically when combined with the medical coverage, offers the flexibility to seek employment, without the worry that a marginal employment situation (far too common in today's workforce) and the cost of health care will leave a family destitute.*[34]

> *Bottom line is that some of the changes to the military can be done, but we need higher pay. For the lower-ranking individuals (the meat and potatoes of the military), they earn significantly less than your officers and high-ranking enlisted members. Military members should never qualify for extra Government assistance because they don't make enough money.*[35]

> *Our payment structure should be based upon rank, qualifications/ education, and hardship/deployment activities. A solution might be to have a base pay 75 percent equal to what we have now and offer an extra money per month for those with degrees, certifications, and specialized skills. Each skill, language, degree would add additional dollar amounts depending on what the Navy, COs, and mission needed (members could seek out training and schools with their own money if they knew they would be paid more).*[36]

> *Equalize and standardize Active versus RC retirement. If Active can collect checks immediately upon retirement after 20 good years, why can't RC do the same? Why does RC have to wait until age 60 to collect? Make AC wait until age 60 to collect retirement checks also and save the*

[32] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[33] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[34] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[35] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[36] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.

> *Government billions of dollars! Help them transition to civilian careers or to RC and keep growing their retirement.*[37]

> *The increases in military retired pay each year should be tied to the same rates as with the active duty. I am very happy with my retired pay, but felt very slighted that once I retired, active-duty pay scales have skyrocketed, while the retired pay scale has inched its way up about 1 percent per year.*[38]

> *Traditional pay scale for retirement is a significant benefit; however, if we HAD TO, I could see a two-step scale, with a lower percentage from retirement date until 55 or 60, then full payment per current scale thereafter.*[39]

> *SBP and DIC are two separate programs and should not be offset. Retirees can get concurrent receipt. Widows should get what the Military promised and spouses paid [for] with their lives. I read that only 3 percent of all veterans that have ever served actually retire. The widows deserve what is promised for their sacrifice.*[40]

> *The SBP-DIC offset takes thousands of dollars out of those families' pockets that really need it. I am asking that the SBP-DIC offset be eliminated. I know this has been an ongoing issue, but it is time to do the right thing.*[41]

Several respondents emphasized that issues of Uniformed Services pay and retirement should not be viewed through the lens of civilian society because the choice to commit to serve places limits on the amount Service members and their families can earn and save for retirement.

> *Military professionals now have a lot of comparative professions in the community, and when a service member makes that decision of going into the military they may be foregoing something out in the civilian community. They should be compensated similarly.*[42]

> *The life of a Service member greatly impacts the ability of the service member's spouse to gain employment, build a career, generate income, and save retirement funds. Regardless of branch or specialty, active-duty Service members move frequently...This proves extremely difficult for many spouses regardless of profession or education level. Spouses may need to acquire new certificates and licenses from state to state, which takes time and money. Many employers avoid hiring military spouses because they are seen as temporary workers. Even if a military spouse finds employment he/she most likely will not work long enough at that company*

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[37] MCRMC letter writer, comment form submitted via MCRMC website, June 13, 2014.
[38] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[39] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[40] MCRMC letterwriter, comment form submitted via MCRMC web site, April 8, 2014.
[41] MCRMC letterwriter, comment form submitted via MCRMC website, November 4, 2013.
[42] Audience member, comment made at MCRMC town hall meeting, Joint Base Lewis-McChord, Tacoma, Washington, December 12, 2013, http://www.mcrmc.gov/public/docs/meetings/20131212/JBLM_Town_Hall_20131212.pdf.

> *[to] earn promotions or build retirement benefits with the company. Serving in the military is truly a sacrifice for the entire family. Today's American families often depend on dual income spouses to pay the bills and save for retirement. When one spouse serves as an active-duty service member, dual income is often not possible.*[43]

COMMENTS REGARDING HEALTH BENEFITS

Health care was an important concern expressed across all demographics and generated passionate responses. Feedback focused primarily on health care quality, access, and cost. For many respondents, especially retirees, the primary concern was continued access to military health benefits. Many perceived the provision of health benefits to be a "promise" made by the military to those retired from Service and expressed concern about an erosion or elimination of health care benefits.

> *The medical benefits of retiring from the military and being able to count on reliable, cost effective, and timely health care will be important for me when I do retire. If I put in the time and endure the sacrifices that go along with being deployed and serving 20 years, the light at the end of the tunnel is retiring and having the comfort of having good health care after I do retire.*[44]

> *Copays and TRICARE fees are not the free health care we were promised. Forced enrollment in Medicare-B at 65 is not free health care. This country should keep the promises it made. God knows we kept our promises to serve at risk of life and limb.*[45]

> *[I was] overall very happy serving 22 years in the Navy. Had a great time; wish I was still active. My only concern is during my entire career I was told, "do a career and the Navy will take care of you with medical care for life." [I] did not find out this was not true until my preretirement class.*[46]

Though many Service members and retirees felt that increases in costs erode the health care benefit they believe they were promised, some respondents indicated a limited support for modest increases in costs to preserve or improve the quality of the health benefit.

> *I'm one of those promised free lifetime medical care by my recruiter. I already think the Government broke a promise by making us pay for TRICARE. But I'm still willing to pay a little more as long as benefits remain essentially the same.*[47]

> *[I am] very happy with current medical care (TRICARE Prime); I recognize that the premiums are unreasonably low. [I] would not be averse to a one-time significant raise in premiums (say to $1,000 per year) with inflation*

[43] MCRMC letterwriter, comment form submitted via MCRMC web site, July 14, 2014.
[44] MCRMC letterwriter, comment form submitted via MCRMC web site, August 17, 2014.
[45] MCRMC letterwriter, comment form submitted via MCRMC website, July 31, 2014.
[46] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[47] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.

> *adjustment in the future in order to retain quality of service provided by TRICARE Prime. But I need assurance it would not be the first step to many more significant raises.*[48]

> *I would be happy to pay a copay if my family and I had access to quality insurance....TRICARE Prime means we can't see good doctors, we have to waste our time jumping through hoops to ever be seen by a specialist or get preventive tests or screening. My family doesn't meet the "criteria" for any quality screening like genetic cancer predisposition, so we are forced to spend our meager savings for mammograms, blood tests, chiropractors, and quality health care that the military won't allow us to see.*[49]

> *Paying minimal cost for health care is very important and I think the most underrated military benefit. However, I think we need more freedom to choose civilian providers especially with children with special needs.*[50]

Some respondents expressed support for the current TRICARE and military treatment facility (MTF) systems and concern about potential changes to those systems.

> *I have only the greatest appreciation for all of my military benefits. In general, all medical services provided seem to be done with both care and competence. Delays in medical services seem to occur everywhere—in both the civilian and military worlds—as so many (too many?) people seek them out.* [51]

> *I am very happy with my pay and TRICARE. I worried at the many changes I hear of and see coming down the pike. I feel sorry for soldiers now serving because they are "not" being taken care of as I was. I believe they will lose more benefits and TRICARE will be watered down or eliminated.*[52]

> *I am sold on my MTF. It takes approximately 50 minutes to get to it because I live in the country. I have tried using civilian doctors, but they are not as organized and fluid as my MTF. When necessary, the MTF has always provided great doctors outside the MTF. I am very happy with my current health care. Don't mess with it in a negative manner. Add to it in a positive manner.*[53]

A substantial number of comments from Service members and families reflected concerns about access to health care, including a desire for increased choice and flexibility in seeking quality medical care.

> *Currently I am not allowed to see a civilian provider even if it's 3 minutes away. I have to wait almost 2 months to see a specialist. Current rules state if no appointments are available within 2 months, I can see a civilian;*

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[48] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[49] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014. (TRICARE does provide coverage for routine mammograms and blood tests.)
[50] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[51] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[52] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[53] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.

however the hospitals have found a way around that by not putting out schedules for 2 months and making you continually call back for appointments instead of allowing you to see a civilian.[54]

I live an hour or so from the nearest base....I only access military medical care for overseas travel preparation. Am very happy with my pension and medical care on TRICARE Standard/Extra, [but] it is very important to me to have access to a nearby medical facility since I am single and must get myself there if I am ill.[55]

Quality health care is very limited in this area. Almost all specialists are a minimum of a 90-minute drive one way. The MTF has only two unexperienced doctors and one PA assigned. Quality of care at the MTF is as bad as or worse than what has been reported for the VA.[56]

[I] recommend dependents and retirees be cared for by civilian providers of their choice, paid for by savings from contracting this expensive service out to civilian sector.[57]

My family and I made an informed decision to purchase health care. If we need a specialist, we can see a specialist without going through countless appointments at the MTF before a referral to a specialist is provided. It is a cost we have knowingly absorbed to have access to quality health care.

The military would perhaps be best served if we integrated our military medical services with the civilian services so that we would not have military hospitals with only one surgeon, limited internists, and few specialists. I feel that our civilian medical services could only benefit if our military medical officers were required to be credentialed at civilian facilities, and were in fact entitled to practice, and even required to practice, at these civilian facilities.[58]

COMMENTS REGARDING QUALITY OF LIFE BENEFITS

The Commission received a substantial number of comments regarding the many quality of life programs across the Services. Feedback illuminated the importance of these programs that are, in many cases, beloved by Service members, retirees, and their families. They are often perceived as central to the positive experience of Service life. The quality of life benefit the Commission heard most about was the commissary. Though some respondents expressed ambivalence about the commissary benefit or concern about its cost, many expressed a desire for preservation of the benefit, both as a means of providing discounted retail offerings and as a unique experience that brings the military community together. Similar opinions were often expressed about military exchanges.

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[54] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[55] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[56] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[57] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[58] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.

> *If you want to keep an all-volunteer military, you must keep the benefits that are in place as of today and for the future. All that are serving and have served depend on the commissary and exchange for low-cost goods. If the Commission does not recommend a pay increase, all benefits are extremely needed.*[59]

> *Commissary (I earned it, don't mess with it!) Exchanges (I earned it, don't mess with it!)*[60]

> *I am very happy to have a small commissary within a 30-minute drive—not just because of the savings, but because it's there just for U, and I enjoy seeing the military members, retirees, and their families taking advantage of the benefit.*[61]

> *I love the commissary benefit and think it would be horrible to remove it. The benefit goes further than grocery savings, the jobs it provides to spouses and retirees (bagging) and the great sense of community when you walk through there.*[62]

Many respondents noted lower-paid Service members, retirees on fixed budgets, and their families disproportionately rely on the savings provided by the commissaries and exchanges.

> *We depend on the commissary to survive the high prices on the outside. We [can't] afford to eat on what our financial status allows. We can't do without it!!!! Please keep it open!!!!!!!*[63]

> *The commissary for your people who—I'm talking about your young people who are E4 and below, with families—and everybody else—it's much cheaper for them to buy stuff at the commissary. And if you walk up and down the aisles, it is so prevalent that people are getting WIC...it's labeled what items are available for WIC at the commissary.*

> *Where we live there is only one commissary to serve the lower half of the state. At and just after the first of the month (and at case lot sales) the commissary is filled with retirees (some who travel great distances) taking advantage of the discounts afforded by this valuable benefit. In our area, access to the commissary provides my family with a savings of 30 percent over local stores. While there are some items that may be found at a lower individual price on the economy, the total combined savings remains constant. In closing, while we generally understand the funding constraints, it is unfathomable that the DoD and the services would acquiesce to plans that seriously degrade our hard earned benefits.*[64]

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[59] MCRMC letterwriter, comment form submitted via MCRMC web site, June 18, 2014.
[60] MCRMC letterwriter, comment form submitted via MCRMC web site, November 13, 2013.
[61] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[62] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[63] MCRMC letterwriter, comment form submitted via MCRMC web site, June 20, 2014.
[64] MCRMC letterwriter, comment form submitted via MCRMC web site, April 8, 2014.

Some who offered feedback observed that exchange profits fund Morale, Welfare, and Recreation (MWR) services, which benefit Service members and families, and they expressed concern that a cut to retail services may adversely affect MWR services.

> *[Exchanges are] also providing a dividend back to MWR every year, which is then recycled into bowling centers and sailor Liberty centers. I'm reinvesting into my facilities. So, I would offer to you that if you only have limited dollars then if you've got a...Government funded program that's giving you a [return] on your tax-payer dollar, then I think you're getting high leverage.*[65]

> *They do provide something good to the post—or to the base, whichever service you may be in. And the morale fund, there's a lot of that feedback. And if that goes, who's gonna be supporting the teen centers and the swimming pools for the families that can use it?*[66]

Some feedback did, however, suggest closing commissaries to reduce military spending. Alternatively, some respondents suggested giving Service members permanent raises in lieu of a commissary benefit.

> *The commissary is a waste of Government money stateside. The whole agency should be reduced to only support OCONUS bases—then it would not have to be its own agency either. Wrap it up under DLA.*[67]

> *Eliminate the commissary and pay people slightly more (2.5-5 percent) [instead] and you would eliminate all the overhead of running a grocery store.*[68]

The Commission also heard substantial feedback regarding education programs and benefits, including dependent education, tuition assistance, and the GI Bill.

> *Sir, I'll give you an example that's been a great retention tool for individuals that have children, and that is the GI Bill and the ability to gift that to either their spouse or to their children.*[69]

> *A lot of people coming in already have an undergraduate degree. There are very few graduate level programs for your enlisted. A lot of the programs are only for officers. But I was meeting people straight out of boot camp who had undergraduate degrees, and they were E3s....because a lot of your Force coming in now, because there [are not] any jobs, are very well educated.*[70]

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[65] RADM Robert Bianchi, testimony given at MCRMC public hearing 3, Naval Base Norfolk, Norfolk, VA, December 13, 2013, http://www.mcrmc.gov/index.php/schedule?id=60.
[66] Audience member, comment made at MCRMC town hall meeting, Joint Base San Antonio, San Antonio, Texas, January 7, 2014, http://www.mcrmc.gov/public/docs/meetings/20140107/JBSA_Town_Hall_20140107.pdf.
[67] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[68] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[69] Col. Kevin McMahan, testimony made at MCRMC public hearing, Joint Base Lewis-McChord, Tacoma, Washington, December 13, 2013, http://www.mcrmc.gov/public/docs/meetings/20131213/MCRMC_JBLM_13_Dec_13_AM.pdf.
[70] Audience member, comment made at MCRMC town hall meeting, BASE, Naval Station Norfolk, Norfolk, Virginia, January 7, 2014, http://www.mcrmc.gov/public/docs/meetings/20131202/MCRMC-Norfolk-Dec02-Panel3-20131202.pdf.

Programs and assistance for Service members transitioning to the civilian workforce were a key concern of those who communicated with the Commission.

> *Transition centers and plans from military to civilian life are poorly set-up and do little to actually help the transitioning service member. [The] program needs to get fixed! Job placement should be the focus.*[71]

> *Prepare the service member throughout their career [for transition].*[72]

> *We need to develop partnerships and get students out of the classroom, start the conversation. Networking is an art form.*[73]

> *I never received any retirement transition program information.*[74]

> *Military commanders need to be held accountable for not allowing Service members to properly schedule appointments for and complete the Army Career and Alumni Program/Transition Assistance Program.*[75]

> *I think a good step toward a real fix would be to make the VA and DoD to work together [on military transition]. Have both under the same roof and same office. When a service member in transition—like retirement, both normal and medical—their records are not looked at after the service member leaves service, but before. Make it a part of the out processing. No Service member should be released from service until it is done and appeals are exhausted. I have seen many Service members retire only to face months or even years waiting on backlogs, and unable to work.*[76]

Dependent programs, especially DoD schools and the Exceptional Family Member Program (EFMP), were praised as key to the quality of life of Service families. Others, such as child care services, were identified as in need of improvement.

> *DoD schools provide a wonderful service. They're popular with the families that use them. They're popular with the commands at the installation where they're located. And they're also popular in the communities where they're located.*[77]

> *Respite care and the programs through EFMP that offer assistance to those with special needs family members are great.*[78]

> *Regarding child care, the Child Development Centers on base are wonderful and the staff are very loving and nurturing toward the children. My complaint is that at bases with 24-hour operations, there are no 24-hour child care facilities, limited local options, and no Family Child Care*

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[71] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.
[72] Summary report, MCRMC sensing sessions, North Carolina, South Carolina, Georgia, August 18-20, 2014.
[73] Summary report, MCRMC sensing sessions, North Carolina, South Carolina, Georgia, August 18-20, 2014.
[74] Summary report, MCRMC sensing sessions, North Carolina, South Carolina, Georgia, August 18-20, 2014.
[75] Summary report, MCRMC sensing sessions, North Carolina, South Carolina, Georgia, August 18-20, 2014.
[76] MCRMC letterwriter, comment form submitted via MCRMC web site, March 20, 2014.
[77] Audience member, comment made at MCRMC town hall meeting, Fort Belvoir, Alexandria, Virginia, November 4, 2013, http://www.mcrmc.gov/public/docs/meetings/20131104/Transcript_Nov_4_13_Town_Hall.pdf.
[78] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.

> *homes willing to care for children on nights, weekends, or overnight when active-duty parents have to work. Military parents who are shift workers have to find nannies or some form of alternative care for their children, which is a huge additional expense that is not factored in and a huge stressor.*[79]

Together, the letters, e-mails, testimony, and survey comments painted a deeply personal picture of the experiences regarding pay and benefits of our Service members, current and retired, and their families. These personal observations and suggestions helped the Commission develop avenues of inquiry, informed our discussions and deliberations, and directly contributed to the recommendations put forth in this report. The Commission thanks each person who provided comments and helped make the recommendations in this report better.

[79] Survey respondent, comment submitted via MCRMC survey, July 1, 2014 to October 10, 2014.

APPENDIX A: GUIDING AND ENABLING DOCUMENTS

NATIONAL DEFENSE AUTHORIZATION ACT (NDAA) FOR FISCAL YEAR 2013

[112th Congress, Public Law 112-239, Section 671, 126 Stat. 1632, 1787 (2013)]

SEC. 671. PURPOSE, SCOPE, AND DEFINITIONS.

(a) PURPOSE.—The purpose of this subtitle is to establish the Military Compensation and Retirement Modernization Commission to conduct a review of the military compensation and retirement systems and to make recommendations to modernize such systems in order to—

(1) ensure the long-term viability of the All-Volunteer Force by sustaining the required human resources of that force during all levels of conflict and economic conditions;

(2) enable the quality of life for members of the Armed Forces and the other uniformed services and their families in a manner that fosters successful recruitment, retention, and careers for members of the Armed Forces and the other uniformed services; and

(3) modernize and achieve fiscal sustainability for the compensation and retirement systems for the Armed Forces and the other uniformed services for the 21st century.

(b) SCOPE OF REVIEW.—

(1) REQUIRED ELEMENTS OF REVIEW.—In order to provide the fullest understanding of the matters required to balance the primary purpose of the review specified in subsection (a), the Commission shall make its recommendations for changes to the military compensation and retirement systems only after—

(A) examining all laws, policies, and practices of the Federal Government that result in any direct payment of authorized or appropriated funds to—

(i) current and former members (veteran and retired) of the uniformed services, including the reserve components of those services; and

(ii) the spouses, family members, children, survivors, and other persons authorized to receive such payments as a result of their connection to the members of the uniformed services named in clause (i);

(B) examining all laws, policies, and practices of the Federal Government that result in any expenditure of authorized or appropriated funds to support the persons named in subparagraph (A) and their quality of life, including—

(i) health, disability, survivor, education, and dependent support programs of the Department of Defense and the Department of Veterans Affairs, including outlays from the various Federal trust funds supporting those programs;

(ii) Department of Education impact aid;

(iii) support or funding provided to States, territories, colleges and universities;

(iv) Department of Defense morale, recreation, and welfare programs, the resale programs (military exchanges and commissaries), and dependent school system;

(v) the tax treatment of military compensation and benefits; and

(vi) military family housing; and

(C) such other matters as the Commission considers appropriate.

(2) PRIORITIES.—In weighing its recommendations on those matters necessary to sustain the human resources of the All-Volunteer Force, the Commission shall—

(A) pay particular attention to the interrelationships and interplay of impact between and among the various programs of the Federal Government, especially as those programs influence decisions of persons about joining the uniformed services and of members of the uniformed services about remaining in the those services; and

(B) closely weigh its recommendations regarding the web of interrelated programs supporting spouses and families of members of the uniformed services, so that changes in such programs do not adversely impact decisions to remain in the uniformed services.

(3) EXCEPTION.—The Commission shall not examine any program that uses appropriated funding for initial entry training or unit training of members of the uniformed services.

(c) DEFINITIONS.—In this subtitle:

(1) The term "Armed Forces" has the meaning given the term "armed forces" in section 101(a)(4) of title 10, United States Code.

(2) The term "Commission" means the Military Compensation and Retirement Modernization Commission established by section 672.

(3) The term "Commission establishment date" means the first day of the first month beginning on or after the date of the enactment of this Act.

(4) The term "military compensation and retirement systems" means the military compensation system and the military retirement system.

(5) The term "military compensation system" means provisions of law providing eligibility for and the computation of military compensation, including regular military compensation, special and incentive pays and allowances, medical and dental care, educational assistance and related benefits, and commissary and exchange benefits and related benefits and activities.

(6) The term "military retirement system" means retirement benefits, including retired pay based upon service in the uniformed services and survivor annuities based upon such service.

(7) The term "Secretary" means the Secretary of Defense.

(8) The term "uniformed services" has the meaning given that term in section 101(a)(5) of title 10, United States Code.

(9) The terms "veterans service organization" and "military related advocacy group or association" mean an organization whose primary purpose is to advocate for veterans, military personnel, military retirees, or military families.

SEC. 672. MILITARY COMPENSATION AND RETIREMENT MODERNIZATION COMMISSION.

(a) ESTABLISHMENT.—There is established in the executive branch an independent commission to be known as the Military Compensation and Retirement Modernization Commission. The Commission shall be considered an independent establishment of the Federal Government as defined by section 104 of title 5, United States Code, and a temporary organization under section 3161 of such title.

(b) MEMBERSHIP.—

(1) NUMBER AND APPOINTMENT.—The Commission shall be composed of nine members appointed as follows:

(A) The President shall appoint one member.

(B) The Majority Leader of the Senate, in consultation with the Chairman of the Committee on Armed Services of the Senate, shall appoint two members.

(C) The Minority Leader of the Senate, in consultation with the Ranking Member of the Committee on Armed Services of the Senate, shall appoint two members.

(D) The Speaker of the House of Representatives, in consultation with the Chairman of the Committee on Armed Services of the House of Representatives, shall appoint two members.

(E) The Minority Leader of the House of Representatives, in consultation with the Ranking Member of the Committee on Armed Services of the House of Representatives, shall appoint two members.

(2) DEADLINE FOR APPOINTMENT.—Members shall be appointed to the Commission under paragraph (1) not later than four months after the Commission establishment date.

(3) QUALIFICATIONS OF INDIVIDUALS APPOINTED.—In appointing members of the Commission, the President and Members of Congress specified in paragraph (1) shall ensure that, collectively, there are members with significant expertise regarding the matters described in section 671. The types of specific expertise and experience to be considered include the following:

(A) Federal civilian employee compensation and retirement.

(B) Military compensation and retirement.

(C) Private-sector compensation, retirement, or human resource systems.

(D) Active-duty service in a regular component of the uniformed services.

(E) Service in a reserve component.

(F) Experience as a spouse of a member of the uniformed services.

(G) Service as an enlisted member of the uniformed services.

(H) Military family policy development and implementation.

(I) Department of Veterans Affairs benefit programs.

(J) Actuarial science.

(4) LIMITATION.—An individual who, within the preceding year, has been employed by a veterans service organization or military-related advocacy group or association may not be appointed to the Commission.

(c) CHAIR.—The President shall designate one of the members of the Commission to be Chair of the Commission. The individual designated as Chair of the Commission shall be a person who has expertise in the military compensation and retirement systems. The Chair, or the designee of the Chair, shall preside over meetings of the Commission and be responsible for establishing the agenda of Commission meetings and hearings.

(d) TERMS.—Members shall be appointed for the life of the Commission. A vacancy in the Commission shall not affect its powers, and shall be filled in the same manner as the original appointment was made.

(e) STATUS AS FEDERAL EMPLOYEES.—Notwithstanding the requirements of section 2105 of title 5, United States Code, including the required supervision under subsection (a)(3) of such section, the members of the Commission shall be deemed to be Federal employees.

(f) PAY FOR MEMBERS OF THE COMMISSION.—

(1) IN GENERAL.—Each member, other than the Chair, of the Commission shall be paid at a rate equal to the daily equivalent of the annual rate of basic pay payable for level IV of the Executive Schedule under section 5315 of title 5, United States Code, for each day (including travel time) during which the member is engaged in the actual performance of duties vested in the Commission.

(2) CHAIR.—The Chair of the Commission shall be paid at a rate equal to the daily equivalent of the annual rate of basic pay payable for level III of the Executive Schedule under section 5314, of title 5, United States Code, for each day (including travel time) during which the member is engaged in the actual performance of duties vested in the Commission.

SEC. 673. COMMISSION HEARINGS AND MEETINGS.

(a) IN GENERAL.—The Commission shall conduct hearings on the recommendations it is taking under consideration. Any such hearing, except a hearing in which classified information is to be considered, shall be open to the public. Any hearing open to the public shall be announced on a Federal website at least 14 days in advance. For all hearings open to the public, the Commission shall release an agenda and a listing of materials relevant to the topics to be discussed.

(b) MEETINGS.—

(1) INITIAL MEETING.—The Commission shall hold its initial meeting not later than 30 days after the date as of which all members have been appointed.

(2) SUBSEQUENT MEETINGS.—After its initial meeting, the Commission shall meet upon the call of the Chair or a majority of its members.

(3) PUBLIC MEETINGS.—Each meeting of the Commission shall be held in public unless any member objects.

(c) QUORUM.—Five members of the Commission shall constitute a quorum, but a lesser number may hold hearings.

(d) PUBLIC COMMENTS.—

(1) SOLICITATION.—The Commission shall seek written comments from the general public and interested parties on measures to modernize the military compensation and retirement systems. Comments shall be requested through a solicitation in the Federal Register and announcement on the Internet website of the Commission.

(2) PERIOD FOR SUBMITTAL.—The period for the submittal of comments pursuant to the solicitation under paragraph (1) shall end not earlier than 30 days after the date of the solicitation and shall end on or before the date on which the Secretary transmits the recommendations of the Secretary to the Commission under section 674(b).

(3) USE BY COMMISSION.—The Commission shall consider the comments submitted under this subsection when developing its recommendations.

(e) SPACE FOR USE OF COMMISSION.—Not later than 90 days after the date of the enactment of this Act, the Administrator of General Services, in consultation with the Secretary, shall identify and make available suitable excess space within the Federal space inventory to house the operations of the Commission. If the Administrator is not able to make such suitable excess space available within such 90-day period, the Commission may lease space to the extent the funds are available.

(f) CONTRACTING AUTHORITY.—The Commission may acquire administrative supplies and equipment for Commission use to the extent funds are available.

SEC. 674. PRINCIPLES AND PROCEDURE FOR COMMISSION RECOMMENDATIONS.

(a) CONTEXT OF COMMISSION REVIEW.—The Commission shall conduct a review of the matters described in section 671, including current military compensation and retirement systems, force management objectives, and changes in life expectancy and the labor force.

(b) DEVELOPMENT OF COMMISSION RECOMMENDATIONS.—

(1) CONSISTENCY WITH PRESIDENTIAL PRINCIPLES.—Subject to paragraph (2), the Commission shall develop recommendations that are consistent with the principles established by the President under subsection (c) and section 671.

(2) GRANDFATHERING OF RETIRED PAY.—

(A) CONDITIONS.—In developing its recommendations, the Commission shall comply with the following conditions with regard to the treatment of retired pay for members and retired members of the uniformed services who joined a uniformed service before the date of the enactment of an Act to modernize the military compensation and retirement systems:

(i) For members of the uniformed services as of such date, who became members before the enactment of such an Act, the monthly amount of their retired pay may not be less than they would have received under the current military compensation and retirement system, nor may the date at which they are eligible to receive their military retired pay be adjusted to the financial detriment of the member.

(ii) For members of the uniformed services retired as of such date, the eligibility for and receipt of their retired pay may not be adjusted pursuant to any change made by the enactment of such an Act.

(B) VOLUNTARY ELECTION EXCEPTION.—Nothing in subparagraph (A) prevents a member described in such subparagraph from voluntarily electing to be covered under the provisions of an Act to modernize the military compensation and retirement systems.

(c) PRESIDENTIAL PRINCIPLES.—Not later than five months after the Commission establishment date, the President shall establish and transmit to the Commission and Congress principles for modernizing the military compensation and retirement systems. The principles established by the President shall address the following:

(1) Maintaining recruitment and retention of the best military personnel.

(2) Modernizing the regular and reserve military compensation and retirement systems.

(3) Differentiating between regular and reserve military service.

(4) Differentiating between service in the Armed Forces and service in the other uniformed services.

(5) Assisting with force management.

(6) Ensuring the fiscal sustainability of the military compensation and retirement systems.

(7) Compliance with the purpose and scope of the review prescribed in section 671.

(d) SECRETARY OF DEFENSE RECOMMENDATIONS.—

(1) DEADLINE.—Not later than nine months after the Commission establishment date, the Secretary shall transmit to the Commission the recommendations of the Secretary for modernization of the military compensation and retirement systems. The Secretary shall concurrently transmit the recommendations to Congress.

(2) DEVELOPMENT OF RECOMMENDATIONS.—The Secretary shall develop the recommendations of the Secretary under paragraph (1)—

(A) on the basis of the principles established by the President pursuant to subsection (c);

(B) in consultation with the Secretary of Homeland Security, with respect to recommendations concerning members of the Coast Guard;

(C) in consultation with the Secretary of Health and Human Services, with respect to recommendations concerning members of the Public Health Service;

(D) in consultation with the Secretary of Commerce, with respect to recommendations concerning members of the National Oceanic and Atmospheric Administration; and

(E) in consultation with the Director of the Office of Management and Budget.

(3) JUSTIFICATION.—The Secretary shall include with the recommendations under paragraph (1) the justification of the Secretary for each recommendation.

(4) AVAILABILITY OF INFORMATION.—The Secretary shall make available to the Commission and to Congress the information used by the Secretary to prepare the recommendations of the Secretary under paragraph (1).

(e) COMMISSION HEARINGS ON RECOMMENDATIONS OF SECRETARY.—After receiving from the Secretary the recommendations of the Secretary for modernization of the military compensation and retirement systems under subsection (d), the Commission shall conduct public hearings on the recommendations.

(f) COMMISSION REPORT AND RECOMMENDATIONS.—

(1) REPORT.—Not later than 15 months after the Commission establishment date, the Commission shall transmit to the President a report containing the findings and conclusions of the Commission, together with the recommendations of the Commission for the modernization of the military compensation and retirement systems. The Commission shall include in the report legislative language to implement the recommendations of the Commission. The findings and conclusions in the report shall be based on the review and analysis by the Commission of the recommendations made by the Secretary under subsection (d).

(2) REQUIREMENT FOR APPROVAL.—The recommendations of the Commission must be approved by at least five members of the Commission before the recommendations may be transmitted to the President under paragraph (1).

(3) PROCEDURES FOR CHANGING RECOMMENDATIONS OF SECRETARY.—The Commission may make a change described in paragraph (4) in the recommendations made by the Secretary only if the Commission—

(A) determines that the change is consistent with the principles established by the President under subsection (c);

(B) publishes a notice of the proposed change not less than 45 days before transmitting its recommendations to the President pursuant to paragraph (1); and

(C) conducts a public hearing on the proposed change.

(4) COVERED CHANGES.—Paragraph (3) applies to a change by the Commission in the recommendations of the Secretary that would—

(A) add a new recommendation;

(B) delete a recommendation; or

(C) substantially change a recommendation.

(5) EXPLANATION AND JUSTIFICATION FOR CHANGES.—The Commission shall explain and justify in its report submitted to the President under paragraph (1) any recommendation made by the Commission that is different from the recommendations made by the Secretary under subsection (d).

(6) TRANSMITTAL TO CONGRESS.—The Commission shall transmit a copy of its report to Congress on the same date on which it transmits its report to the President under paragraph (1).

SEC. 675. CONSIDERATION OF COMMISSION RECOMMENDATIONS BY THE PRESIDENT.

(a) REPORT OF PRESIDENTIAL APPROVAL OR DISAPPROVAL.—Not later than 60 days after the date on which the Commission transmits its report to the President under section 674, the President shall transmit to the Commission and to Congress a report containing the approval or disapproval by the President of the recommendations of the Commission in the report.

(b) PRESIDENTIAL APPROVAL.—If in the report under subsection (a) the President approves all the recommendations of the Commission, the President shall include with the report the following:

(1) A copy of the recommendations of the Commission.

(2) The certification by the President of the approval of the President of each recommendation.

(3) The legislative language transmitted by the Commission to the President as part of the report of the Commission.

(c) PRESIDENTIAL DISAPPROVAL.—

(1) REASONS FOR DISAPPROVAL.—If in the report under subsection (a) the President disapproves the recommendations of the Commission, in whole or in part, the President shall include in the report the reasons for that disapproval.

(2) REVISED RECOMMENDATIONS FROM COMMISSION.—Not later than one month after the date of the report of the President under subsection (a) disapproving the recommendations of the Commission, the Commission shall transmit to the President revised recommendations for the modernization of the military compensation and retirement systems, together with revised legislative language to implement the revised recommendations of the Commission.

(3) ACTION ON REVISED RECOMMENDATIONS.—If the President approves all of the revised recommendations of the Commission transmitted pursuant to paragraph (2), the President shall transmit to Congress, not later than one month after receiving the revised recommendations, the following:

(A) A copy of the revised recommendations.

(B) The certification by the President of the approval of the President of each recommendation as so revised.

(C) The revised legislative language transmitted to the President.

(d) TERMINATION OF COMMISSION.—If the President does not transmit to Congress an approval and certification described in subsection (b) or (c)(3) in accordance with the applicable deadline under such subsection, the Commission shall be terminated not later than one month after the expiration of the period for transmittal of a report under subsection (c)(3).

SEC. 676. EXECUTIVE DIRECTOR.

(a) APPOINTMENT.—The Commission shall appoint and fix the rate of basic pay for an Executive Director in accordance with section 3161 of title 5, United States Code.

(b) LIMITATIONS.—The Executive Director may not have served on active duty in the Armed Forces or as a civilian employee of the Department of Defense during the one-year period preceding the date of such appointment and may not have been employed by a veterans service organization or a military-related advocacy group or association during that one-year period.

SEC. 677. STAFF.

(a) IN GENERAL.—Subject to subsections (b) and (c), the Executive Director, with the approval of the Commission, may appoint and fix the rate of basic pay for additional personnel as staff of the Commission in accordance with section 3161 of title 5, United States Code.

(b) LIMITATIONS ON STAFF.—

(1) NUMBER OF DETAILEES FROM EXECUTIVE DEPARTMENT.—Not more than one-third of the personnel employed by or detailed to the Commission may be on detail from the Department of Defense and other executive branch departments.

(2) PRIOR DUTIES WITHIN EXECUTIVE BRANCH.—A person may not be detailed from the Department of Defense or other executive branch department to the Commission if, in the year before the detail is to begin, that person participated personally and substantially in any matter concerning the preparation of recommendations for military compensation and retirement modernization.

(3) NUMBER OF DETAILEES ELIGIBLE FOR MILITARY RETIRED PAY.—Not more than one-fourth of the personnel employed by or detailed to the Commission may be persons eligible for or receiving military retired pay.

(4) PRIOR EMPLOYMENT WITH CERTAIN ORGANIZATIONS.—A person may not be employed by or detailed to the Commission if, in the year before the employment or detail is to begin, that person was employed by a veterans service organization or a military-related advocacy group or association.

(c) LIMITATIONS ON PERFORMANCE REVIEWS.—No member of the uniformed services, and no officer or employee of the Department of Defense or other executive branch department, may—

(1) prepare any report concerning the effectiveness, fitness, or efficiency of the performance of the staff of the Commission or any person detailed to that staff;

(2) review the preparation of such a report; or

(3) approve or disapprove such a report.

SEC. 678. JUDICIAL REVIEW PRECLUDED.

The following shall not be subject to judicial review:

(1) Actions of the President, the Secretary, and the Commission under section 674.

(2) Actions of the President under section 675.

SEC. 679. TERMINATION. Except as otherwise provided in this title, the Commission shall terminate not later than 26 months after the Commission establishment date.

SEC. 680. FUNDING. Of the amounts authorized to be appropriated by this Act for the Department of Defense for fiscal year 2013, up to $10,000,000 shall be made available to the Commission to carry out its duties under this subtitle. Funds made available to the Commission under the preceding sentence shall remain available until expended.

NATIONAL DEFENSE AUTHORIZATION ACT (NDAA) FOR FISCAL YEAR 2014

[113th Congress, Public Law 113-66, Section 1095(b), 127 Stat. 672, 879 (2013)]

(b) MILITARY COMPENSATION AND RETIREMENT MODERNIZATION COMMISSION.—

(1) SCOPE OF MILITARY COMPENSATION SYSTEM.—Section 671(c)(5) of the National Defense Authorization Act for Fiscal Year 2013 (Public Law 112–239; 126 Stat. 1788) is amended by inserting before the period the following ", and includes any other laws, policies, or practices of the Federal Government that result in any direct payment of authorized or appropriated funds to the persons specified in subsection (b)(1)(A)".

(2) COMMISSION AUTHORITIES.—Section 673 of such Act (126 Stat. 1790) is amended by adding at the end the following new subsections:

"(g) USE OF GOVERNMENT INFORMATION.—The Commission may secure directly from any department or agency of the Federal Government such information as the Commission considers necessary to carry out its duties. Upon such request of the Chair of the Commission, the head of such department or agency shall furnish such information to the Commission.

"(h) POSTAL SERVICES.—The Commission may use the United States mails in the same manner and under the same conditions as departments and agencies of the United States.

"(i) AUTHORITY TO ACCEPT GIFTS.—The Commission may accept, use, and dispose of gifts or donations of services, goods, and property from non-Federal entities for the purposes of aiding and facilitating the work of the Commission. The authority in this subsection does not extend to gifts of money.

"(j) PERSONAL SERVICES.—

"(1) AUTHORITY TO PROCURE.—The Commission may—

"(A) procure the services of experts or consultants (or of organizations of experts or consultants) in accordance with the provisions of section 3109 of title 5, United States Code; and

"(B) pay in connection with such services travel expenses of individuals, including transportation and per diem in lieu of subsistence, while such individuals are traveling from their homes or places of business to duty stations.

"(2) LIMITATION.—The total number of experts or consultants procured pursuant to paragraph (1) may not exceed five experts or consultants.

"(3) MAXIMUM DAILY PAY RATES.—The daily rate paid an expert or consultant procured pursuant to paragraph (1) may not exceed the daily rate paid a person occupying a position at level IV of the Executive Schedule under section 5315 of title 5, United States Code.".

(3) COMMISSION REPORT AND RECOMMENDATIONS.—Section 674(f) of such Act (126 Stat. 1792) is amended—

(A) in paragraph (1)—

(i) by striking "15 months" and inserting "24 months"; and

(ii) by inserting "and recommendations for administrative actions" after "legislative language"; and

(B) in paragraph (6), by inserting ", and shall publish a copy of that report on an Internet website available to the public," after "its report to Congress".

(4) PRESIDENTIAL CONSIDERATION OF COMMISSION RECOMMENDATIONS.—Section 675 of such Act (126 Stat. 1793) is amended by striking subsection (d).

(5) COMMISSION STAFF.—

(A) DETAILEES RECEIVING MILITARY RETIRED PAY.—Subsection (b)(3) of section 677 of such Act (126 Stat. 1794) is amended—

(i) in the paragraph heading, by striking "ELIGIBLE FOR" and inserting "RECEIVING"; and

(ii) by striking "eligible for or receiving military retired pay" and inserting "who are receiving military retired pay or who, but for being under the eligibility age applicable under section 12731 of title 10, United States Code, would be eligible to receive retired pay".

(B) PERFORMANCE REVIEWS.—Subsection (c) of such section is amended—

(i) in the matter preceding paragraph (1), by inserting "other than a member of the uniformed services or officer or employee who is detailed to the Commission," after "executive branch department,"; and

(ii) in paragraph (2), by inserting "(other than for administrative accuracy)" before the semicolon.

(6) TERMINATION OF COMMISSION.—Section 679 of such Act (126 Stat. 1795) is amended by striking "26 months" and inserting "35 months".

(7) FUNDING.—Section 680 of such Act (126 Stat. 1795) is amended—

(A) by striking "$10,000,000" and inserting "$15,000,000"; and

(B) by adding at the end the following new sentence: "Amounts made available under this section after the date of the enactment of the National Defense Authorization Act for Fiscal Year 2014 shall be derived from fiscal year 2013 balances that remain available for obligation on that date."

APPENDIX B: COMMISSION STAFF COMPOSITION

Executive Director

Robert B. Daigle

Deputy Executive Director

Nancy C. Crisman

Pay and Retirement Portfolio

Moira N. Flanders, Associate Director
Lyle J. Hogue, Deputy
Cheryl Blackstone, Col, USMCR
Edna Falk Curtin
Steven C. Cylke
Ronald Garner, Maj, USMCR
Matthew G. Reardon, CAPT, USNR
Albert J. Smith, Maj, USMCR
Derek Vestal, CDR, USN
Jeni Tasken, Intern

Health Benefits Portfolio

Christopher T. Meyer, Associate Director
Alexis Lasselle Ross, Deputy
Deidra Briggs-Anthony, LTC, USA
Trupti N. Brahmbhatt, PhD, CAPT, USN
Gretchen S. Dietrich, Lt Col, USAF

Quality of Life Portfolio

Susan E. Schleigh, Associate Director
Mark A. Murphy, Deputy
Jennifer R. Knowles
John R. O'Hara
Pamela K. Tomlinson

Administration and Operations

Christopher Nuneviller, Associate Director
Claire Zipf Giambastiani, Deputy
Alicia Kuhar
Tywana Sutton
Denise L. Thompson
Molly Ferguson, Intern

General Counsel

Elizabeth DiVecchio Berrigan

Office of the General Counsel

Allison C. George, Deputy General Counsel
Mark Koster, Legislative Counsel
Brandon Ford
Mariam Gillis
Collin Mickle
Patrick Gunson, Legal Administrator Intern

Special Advisors to the Commission

Daniel F. Huck
Frank Thorp IV

Public Relations and Outreach

James Graybeal, Associate Director
Shawn Woodbridge, Deputy

Legislative Affairs

Jennifer R. Knowles

Modeling

Garrett Summers, Lead
Jacqueline DePaulitte, Deputy
Wiley Rittenhouse, LTC, USA

Writing, Editing, and Report Production

Benjamin Bryant, Lead
Jennifer E. McKinney, Deputy
Donald J. Cicotte
Wendy J. LaRue, PhD
Christy Samuels

Web & Technical Operations

Thomas J. Zamberlan, Lead
Alex Estep
Christin Keophila Kenny, Intern

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APPENDIX C: COMMISSION OUTREACH

The Commission has conducted extensive outreach efforts with diverse stakeholders to gain their input and a better understanding of perceptions, concerns, and priorities regarding military pay and compensation programs. In particular, the Commission has met with numerous groups of Service members, veterans, retirees, and their family members to discuss the pay and benefits that support the All-Volunteer Force. In addition, the Commission has conducted outreach efforts through public hearings, town hall meetings, and conversations with representatives from Government Agencies, Uniformed Services, military and veterans service organizations, research institutions, and other commercial and not-for-profit organizations, as listed below.

These interactions have helped create a foundation of information from which the Commission developed recommendations to modernize pay and compensation programs to do the following

- *ensure the long-term viability of the All-Volunteer Force by sustaining the required human resources of that force during all levels of conflict and economic conditions*
- *enable the quality of life for members of the Armed Forces and the other Uniformed Services and their families in a manner that fosters successful recruitment, retention, and careers for members of the Armed Forces and the other Uniformed Services*
- *modernize and achieve fiscal sustainability for the compensation and retirement systems for the Armed Forces and the other Uniformed Services for the 21st century*[1]

PUBLIC HEARINGS AND TOWN HALL MEETINGS

Date	Location
November 4, 2013	Public Hearing – Fort Belvoir, Virginia
November 4, 2013	Town Hall Meeting – Fort Belvoir, Virginia
November 5, 2013	Public Hearing – Arlington, Virginia
November 13, 2013	Public Hearing – Arlington, Virginia
December 2, 2013	Town Hall Meeting – Norfolk, Virginia
December 2-3, 2013	Public Hearings – Norfolk, Virginia
December 11, 2013	Town Hall Meeting – Seattle, Washington
December 11-12, 2013	Public Hearings – Seattle, Washington
January 6, 2014	Town Hall Meeting – San Antonio, Texas
January 6-7, 2014	Public Hearings – San Antonio, Texas
March 25, 2014	Town Hall Meeting – Carlsbad, California
March 26, 2014	Public Hearings – San Diego, California

[1] National Defense Authorization Act for FY 2013, Pub. L. No. 112-239, 126 Stat. 1632, 1787 (2013) (as amended by National Defense Authorization Act for FY 2014, Pub. L. No. 113-66, § 1095(b), 127 Stat. 672, 879 (2013)).

May 22, 2014	Town Hall – Tampa, Florida
June 25, 2014	Public Hearing – Fayetteville, North Carolina
June 25, 2014	Town Hall – Fayetteville, North Carolina
October 16, 2014	Town Hall – Killeen, Texas

MILITARY INSTALLATIONS VISITED

- Beale Air Force Base, California
- Camp Atterbury, Indiana
- Camp Casey, South Korea
- Commander Fleet Activities Yokosuka, Japan
- Creech Air Force Base, Nevada
- Defense Language Institute Foreign Language Center, California
- Edwards Air Force Base, California
- Eglin Air Force Base, Florida
- Fleet Anti-Submarine Warfare Training Center, California
- Fort Belvoir, Virginia
- Fort Benning, Georgia
- Fort Bragg, North Carolina
- Fort Campbell, Kentucky
- Fort Drum, New York
- Fort Hood, Texas
- Fort Hunter Liggett, California
- Fort Indiantown Gap National Guard Training Center, Pennsylvania
- Fort Irwin, National Training Center, California
- Fort Rucker, Alabama
- Fort Stewart, Georgia
- Fort Wainwright, Alaska
- Hunter Army Airfield, Georgia
- Joint Base Charleston, South Carolina
- Joint Base Elmendorf-Richardson, Alaska
- Joint Base Lewis-McChord, Washington
- Joint Base San Antonio-Fort Sam Houston, Texas
- Joint Force Headquarters, California National Guard, California
- Landstuhl Regional Medical Center, Germany
- Marine Corps Air Ground Combat Center Twenty-Nine Palms, California
- Marine Corps Base Camp Lejeune, North Carolina
- Marine Corps Base Camp Pendleton, California
- Marine Corps Base Kaneohe, Hawaii
- Marine Corps Base Quantico, Virginia
- Marine Corps Recruit Depot Parris Island, South Carolina
- Marine Corps Recruiting Station
  - Chesapeake, Virginia
- Army Recruiting Station
  - Chesapeake, Virginia
  - Hampton Roads, Virginia
  - San Antonio, Texas
  - Tampa, Florida
- MacDill Air Force Base, Florida
- Military Entrance Processing Station, Brooklyn, New York
- Naval Air Station Pensacola, Florida

- Naval Base Point Loma, California
- Naval Base San Diego, California
- Naval Postgraduate School, California
- Naval Recruiting Station
  - Chesapeake, Virginia
  - Hampton Roads, Virginia
  - San Antonio, Texas
  - San Diego, California
  - Seattle, Washington
  - Tampa, Florida
- Naval Station Mayport, Florida
- Naval Station Norfolk, Virginia
- Naval Support Activity Mid-South, Tennessee
- Nellis Air Force Base, Nevada
- Osan Air Base, South Korea
- Texas Army National Guard, 2/149th General Support Aviation Battalion, Texas
- Travis Air Force Base, California
- U.S. Army Garrison Stuttgart (Patch Barracks), Germany
- U.S. Coast Guard Station Kodiak, Alaska
- U.S. Coast Guard Station Portsmouth, Virginia
- United States Military Academy, West Point, New York
- United States Naval Academy, Annapolis, Maryland
- United States Pacific Fleet, Pearl Harbor Naval Base, Hawaii
- Wright-Patterson Air Force Base, Ohio
- Yakota Air Base, Japan
- Yongsan Garrison, Korea

UNITED STATES GOVERNMENT ENGAGEMENT

Executive Agencies and Offices

- Executive Office of the President
  - Office of Management and Budget
- Department of the Treasury
- Department of Defense
  - Office of the Secretary of Defense
  - Office of the Joint Chiefs of Staff
  - U.S. Army
  - U.S. Marine Corps
  - U.S. Navy
  - U.S. Air Force
  - National Guard Bureau
- Department of Agriculture
- Department of Commerce
  - National Oceanic and Atmospheric Administration
- Department of Labor
- Department of Health and Human Services
  - Centers for Medicare & Medicaid Services
  - U.S. Public Health Service
- Department of Education
- Department of Veterans Affairs

- National Cemetery Administration
- Veterans Benefits Administration
- Veterans Health Administration
  - Captain James A Lovell Federal Health Care Center, North Chicago, Illinois
  - Gulf Coast Veterans Health Care System-Joint Ambulatory Care Center, Pensacola, Florida
  - Veterans Affairs Southern Nevada Healthcare System, North Las Vegas, Nevada
  - Hampton VA Medical Center, Hampton, Virginia
  - South Texas Veterans Health Care System, San Antonio, Texas
  - VA San Diego Health Care System, San Diego, California
- Department of Homeland Security
  - United States Coast Guard
- U.S. Maritime Administration
  - United States Merchant Marine Academy
- Office of Personnel Management
- Pension Benefit Guaranty Corporation
- Federal Retirement Thrift Investment Board
- Quadrennial Defense Review Independent Panel

Legislative Bodies and Offices

- U.S. Senate
- U.S. House of Representatives
- Congressional Budget Office
- U.S. Government Accountability Office
- Congressional Research Service

FOREIGN MILITARIES

- Australian Defence Force
- Bundeswehr Zentraler Sanitätsdienst (Joint Medical Service), Federal Republic of Germany
- United Kingdom Ministry of Defence
  - Armed Forces' Pay Review Body
  - Joint Forces Command, Defense Medical Services, Surgeon General
  - Office of the Director General of the Army Medical Services

OTHER ORGANIZATIONS

- Acosta Sales and Marketing
- Air Force Aid Society
- Air Force Association
- Air Force Sergeants Association
- American Academy of Actuaries
- American Enterprise Institute
- The American Legion
- American Logistics Association
- America's Health Insurance Plans
- Armed Forces Marketing Council
- Army Emergency Relief

- Army Wife Network
- Association of the United States Army
- Association of the United States Navy
- Blinded Veterans Association
- Blue Cross and Blue Shield of Texas
- Blue Cross Blue Shield Association
- Blue Star Families
- Business Executives for National Security
- Carthage Area Hospital, Carthage, New York
- Center for a New American Security
- Center for Strategic and Budgetary Assessments
- Center for Strategic and International Studies
- Chief Warrant and Warrant Officers Association, United States Coast Guard
- Children's National Medical Center
- Cigna-HealthSpring
- Clear Channel Communications
- ClearPoint Credit Counseling Solutions
- CNA Corporation
- The Coalition to Save our Military Shopping Benefits
- The Coca-Cola Company
- Commissioned Officers Association of the United States Public Health Service
- Concerned Veterans for America
- Consumer Financial Protection Bureau
- Consumers' Checkbook
- Disabled American Veterans
- Doorways to Dreams
- Employee Benefits Research Institute
- Enlisted Association of the National Guard of the United States
- EverFi
- Fairfax County Retirement Administration Office
- FINRA Investor Education Foundation
- Fisher House Foundation
- Fleet Reserve Association
- Fort Drum Regional Health Planning Organization, New York
- George Mason University
- George Washington University
- Gold Star Wives of America
- Health Net
- Health Care Integrators
- Humana
- Huron Healthcare
- Institute for Defense Analyses
- Iraq and Afghanistan Veterans of America
- JP Morgan Chase & Company
- Kaiser Family Foundation
- Kaiser Permanente
- KeepYourPromise Alliance
- Kraft Foods Group, Inc.
- Lend Lease Group
- Lewin Group
- Lowe Campbell Ewald

- Macho Spouse
- Marine Corps League
- Marine Corps Reserve Association
- MAZON: A Jewish Response to Hunger
- Military Chaplains Association-United States of America
- Military Child Education Coalition
- Military Family Advisory Network
- Military Officers Association of America
- Military Order of the Purple Heart
- The Military Produce Group/The Vectre Corporation
- Military Saves
- Military Spouse Magazine
- Military.com
- MITRE
- National Academy of Public Administration
- National Association for Uniformed Services
- National Association of Chain Drug Stores
- National Association of Counties
- National Association of Federally Impacted Schools
- National Guard Association of the United States
- National Military Family Association
- National Veterans Transition Services, Inc.
- Naval Enlisted Reserve Association
- Navy-Marine Corps Relief Society
- Non-Commissioned Officers Association
- Office of Economic and Manpower Analysis
- Pacific Medical Centers
- Procter & Gamble
- Project Hope
- Prudential Insurance
- RAND
- Red Sox Foundation and Massachusetts General Hospital Home Base Program
- Reserve Officers Association
- The Retired Enlisted Association
- River Hospital, Inc., Watertown, New York
- Sacred Heart Health System
- Sacred Heart Hospital, Pensacola, Florida
- Samaritan Medical Center, Watertown, New York
- Scott & White Health Plan
- Sentara Healthcare
- SNAP administering agencies in 25 states
- Society for Human Resources Management
- The Spectrum Group
- Stimson Center
- Student Veterans of America
- Suzi Orman Media, Inc.
- Tampa General Hospital, Tampa, Florida
- TRICARE for Kids Initiative
- Troops to Engineers, San Diego State University
- United Healthcare
- United Services Automobile Association

- United States Army Warrant Officers Association
- United States Coast Guard Chief Petty Officers Association
- University Medical Center of Southern Nevada, Las Vegas Nevada
- University of San Diego
- US Family Health Plan Alliance
- USAA Federal Savings Bank
- USMC Life
- Veterans of Foreign Wars
- WEBCO General Partnership
- WIC administering agencies on four military installations
- Wounded Warrior Project
- Zeiders Enterprises

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APPENDIX D: COST DATA

The Commission estimates that its modernization recommendations would reduce DoD budgetary costs, in FY 2016 constant dollars,[1] by $31.8 billion during FY 2016–FY 2020 and result in annual steady-state savings of $8.7 billion by FY 2046. Federal outlays would decrease by $11.0 billion during FY 2016–FY 2020 and by $12.6 billion annually starting in FY 2053. In then-year (current) dollars, Federal outlays would decline by $12.0 billion during FY2016-FY 2020 and by $40 billion in FY 2055. Overall results are shown in the following summary table, which presents expected costs to implement the Commission's recommendations, costs or savings (presented as negative dollars shown in parentheses) within the budgets of affected Federal agencies, and increases or decreases in both constant and then-year Federal outlays. All costs and savings are presented net of implementation costs.

$ Millions	2016	2017	2018	2019	2020	2053	2054	2055
Implementation	348	218	111	120	89	-	-	-
DoD Budget	(4,789)	(4,895)	(7,113)	(7,367)	(7,608)	(8,677)	(8,677)	(8,677)
VA Budget	120	(2,126)	(4,667)	(4,478)	(4,542)	(4,757)	(4,757)	(4,757)
USDA Budget	-	1	1	1	1	1	1	1
Federal Outlays	961	(160)	(3,850)	(3,858)	(4,100)	(12,609)	(12,609)	(12,609)
Federal Outlays (Then-Year $)	961	(175)	(4,073)	(4,199)	(4,553)	(37,564)	(38,748)	(39,972)

For each of the Commission's recommendations, this appendix presents cost estimates and key assumptions related to those estimates. For example, current Service members and retirees are grandfathered in to the existing retirement system,[2] but may opt in to the modernized retirement system. The cost estimate for the Commission's retirement recommendation therefore estimates the percentage of current Service members who will opt in to the new retirement system.

Recommendation 1: Help more Service members save for retirement earlier in their careers, leverage the retention power of traditional Uniformed Services retirement, and give the Services greater flexibility to retain quality people in demanding career fields by implementing a modernized retirement system.

The Commission estimates that its retirement recommendation would reduce DoD budgetary costs by $6.1 billion during FY 2016–FY 2020 and result in annual steady-state savings of $1.9 billion by FY 2046. Federal outlays would increase by $7.2 billion during FY 2016–FY 2020, but decrease by $4.7 billion annually starting in FY 2053. In this estimate, DoD budgetary reductions are the net result of decreases in DoD's normal cost payments (NCPs) into the Military Retirement Fund (MRF), increases in automatic and matching contributions for the Service members' Thrift Savings Plan (TSP) accounts, increases in Continuation Pay (CP) for midcareer retention bonuses, and minor funding effects from associated changes in the disability retirement system. Reductions in Government outlays are the net result of changes in payments from the MRF to retired Service members for defined benefit (DB) annuities and increases in

[1] Unless otherwise noted, all costs and savings are presented in FY 2016 constant dollars, which do not account for expected inflation. Each costing table in this appendix includes a line for Federal outlays in then-year (current) dollars, which do include expected inflation to better compare to estimates of National debt.
[2] National Defense Authorization Act for FY 2013, Pub. L. No. 112-239, § 674(b)(2), 126 Stat. 1632, 1791 (2013).

TSP contributions and CP. Outlays are higher in the near years because Government contributions to Service members' TSP accounts begin immediately upon implementation of the blended retirement system, yet reductions in DB payments are realized over time as Service members retire under the blended retirement system.

$ Millions	2016	2017	2018	2019	2020	2053	2054	2055
Implementation	154	-	-	-	-	-	-	-
DoD Budget	(990)	(1,185)	(1,238)	(1,297)	(1,357)	(1,894)	(1,894)	(1,894)
Federal Outlays	522	1,564	1,645	1,719	1,792	(4,666)	(4,666)	(4,666)
Federal Outlays (Then-Year $)	522	1,579	1,684	1,791	1,934	(14,853)	(15,346)	(15,855)

Assumptions

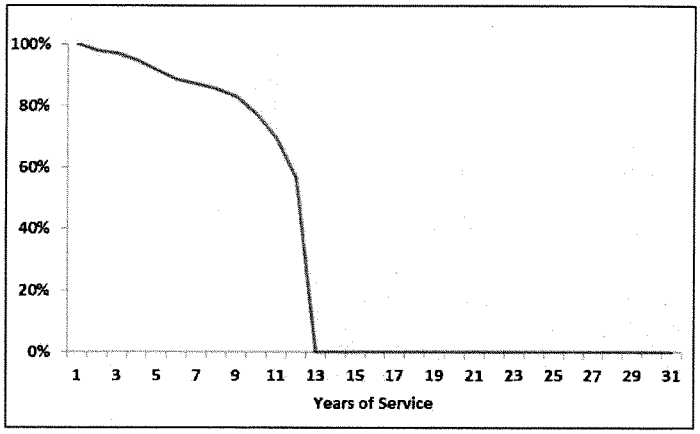
- TSP (defined contribution): The Government automatically contributes 1 percent to Service members' TSP accounts upon entry through 20 years of service (YOS). Service members are automatically enrolled to contribute 3 percent of basic pay upon entry in to service. Service members continue to contribute 3 percent of basic pay annually throughout their service. The Government matches Service member contributions of 3 percent of basic pay from YOS 3-20. Service members are vested into TSP beginning at YOS 3 (for matching and automatic contributions from DoD).

- DB: The defined benefit retirement multiplier is established at 2.0 and is paid to Active Component (AC) and Reserve Component (RC) members who serve at least 20 years of qualifying service. Service members have the flexibility to receive DB annuities prior to full Social Security retirement age as monthly payments, full lump sums, or partial lump sums with partial monthly payments.

- CP: Basic CP is paid to Service members at 12 YOS. AC members receive 2.5 times their monthly basic pay as Basic CP and RC members receive 0.5 times the monthly basic pay of an AC Service member of the same rank and YOS as Basic CP. Additional CP is paid to Service members consistent with projections of the CP necessary to maintain the Services' current force profiles (see Figure 31).

- Current AC members opt in to the blended retirement system according to the following figure. No current RC members opt in.

Figure 31. Assumed percent of Service Member Who Opt in to Blended Retirement[3]



- Implementation costs include training sessions for all AC and RC Service members on the Commission's recommendations,[4] as well as development of the necessary processes to record Service member opt-in decisions and TSP investment choices. The cost is estimated at $25 for each Service member.[5] Using the FY 2013 total force end-strength population of 2,272,410,[6] total cost is $113.6 million.

- For the high-cost (low-savings) estimate, all Service members contribute 5 percent of basic pay into their TSP accounts, the Government matches all 5 percent of these TSP contributions, and nobody elects a lump sum DB option. For the low-cost (high-savings) estimate, no Service members contribute to their TSP accounts, there are therefore no Government matching contributions, and all Service members elect the full lump-sum DB option.

Validation

Current contributions to and future payments from the MRF are actuarially determined.[7] The Commission therefore procured the services of RAND to assist with

[3] RAND Corporation, *Analysis of Retirement Reform in Support of the Military Compensation and Retirement Modernization Commission Progress Report*, November 2014 (RAND performed this analysis pursuant to a contract with the Commission).
[4] It is expected that these training events will provide Service members with information on the Commission's other recommendations, including health benefit changes.
[5] The Department of the Army estimated that effective one-time personal financial management training could be delivered for $22 per soldier. Office of Economic and Manpower Analysis, Department of Social Sciences, United States Military Academy, *Assessing Financial Education: Evidence from a Personal Financial Management Course*, December 10, 2013.
[6] End Strength Data, Military Compensation & Retirement Modernization Commission Interim Report, June 2014, 6.
[7] NCPs are based on economic assumptions including annual rates of interest used to discount future cash flows; retirement cost of living adjustments; future across-the-board salary increases; withdrawal and retirement assumptions; and retiree death and "other loss" rates. Estimated NCPs related to the Commission's recommendations

developing estimates of NCP changes, in conjunction with DoD's Office of the Actuary (OACT). RAND also estimated CP that would be necessary to maintain the Services' current force profiles using its Dynamic Retention Model.[8] RAND further assisted the Commission by estimating the percentage of existing Service members who would opt in to the blended retirement system, as well as the number of DB annuities that would be chosen as full or partial lump-sum payments. These methods were similar to those used in DoD's March, 2014 white paper on military retirement.[9]

Recommendation 2: Provide more options for Service members to protect their pay for their survivors by offering new Survivor Benefit Plan coverage without Dependency and Indemnity Compensation offset.

The Commission estimates that its recommendation related to the Survivor Benefit Plan would reduce DoD budgetary costs by $382 million during FY 2016–FY 2020 and result in annual steady-state savings of $160 million by FY 2042. Federal outlays would increase by $8 million during FY 2016–FY 2020, but be unaffected thereafter.[10] In this estimate, DoD budgetary reductions are the net result of decreases in DoD's NCPs into the MRF, as well as increases from new receipts from retirees opting into the new SBP option and therefore paying greater premiums.

$ Millions	2016	2017	2018	2019	2020	2053	2054	2055
Implementation	4	4	-	-	-	-	-	-
DoD Budget	(66)	(66)	(80)	(80)	(90)	(160)	(160)	(160)
Federal Outlays	4	4	-	-	-	-	-	-
Federal Outlays (Then-Year $)	4	4	-	-	-	-	-	-

Assumptions

- DB: SBP payments depend upon retired Service member's DB annuity payments, which are consistent with the assumptions of Recommendation 1.
- Current SBP plan: Service members' premiums and survivors' benefits (e.g., premium of 6.5 percent of retired pay for benefits of 55 percent of retired pay) remain the same. SBP benefits under the current SBP continue to be offset by Department of Veterans Affairs (VA) Dependency and Indemnity Compensation (DIC) payments.
- SBP option: Service members fully fund SBP coverage with greater premiums (e.g., 11.25 percent of retired pay for benefits of 55 percent of retired pay).[11]

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are relative to baseline NCPs that were calculated using the most recent methods, assumptions, and law that underlay the September 30, 2014, Military Retirement Fund actuarial valuation and FY 2016 NCPs, which were approved by the DoD Board of Actuaries at their July, 2014, meeting. Department of Defense, Office of the Actuary, Statistical Report of the Military Retirement System, Fiscal Year 2013, May 2014, accessed November 22, 2014, http://actuary.defense.gov/Portals/15/Documents/statbook13.pdf.

[8] RAND's Dynamic Retention Model, (DRM) involves simulations of the impact of compensation and retirement policy changes on active and reserve retention as well as on cost and outlays, in the steady state as well as in the transition to the steady state.

[9] Department of Defense, *Concepts For Modernizing Military Retirement*, http://www.mcrmc.gov/public/docs/report/pr/Concepts_for_Modernizing_Military_Retirement_SBP_FN_15_16_27.pdf.

[10] SBP payments are partly based on the DB retirement multiplier. Changes in Federal outlays associated with SBP payments that result from establishing the DB retirement multiplier at 2.0 are included in the costs and savings of Recommendation 1.

[11] Annual premiums for the recommended SBP options will be established annually by DoD's Office of the Actuary. For FY 2013, the premium to fully fund SBP payments would have been 11.25 percent of retired pay.

SBP benefits under this option are not offset by DIC payments. Approximately 16 percent of retiring Service members choose the new SBP option.

- Implementation costs include communication of the new SBP option to retiring Service members, retirees, and their families. For retiring Service members, communication is achieved during the mandatory transition assistance program. For current retirees, a mail campaign is initiated to inform them of the open season opportunity to choose the SBP option.

- For the high-cost (low-savings) estimate, no Service member elects the lump sum DB option. For the low-cost (high-savings) estimate, every Service member elects the full lump-sum DB annuity payment option. Service members who choose the lump sum DB annuity payment option have their lump-sum payment amount reduced by the total amount (for 360 months) of their SBP premium cost.

Validation

Current contributions to and future payments from the MRF are actuarially determined. The Commission therefore developed estimates of NCP changes in conjunction with the OACT and RAND. RAND further assisted the Commission by estimating the percentage of existing Service members who would opt in to the SBP option. These methods were similar to those used in DoD's March, 2014 white paper on military retirement.[12]

Recommendation 3: Promote Service members' financial literacy by implementing a more robust financial and health benefit training program.

The Commission estimates that its recommendation related to financial literacy would increase DoD budgetary costs and Federal outlays by $400 million during FY 2016–FY 2020 and result in annual steady-state cost increases of $75 million by FY 2019. In this estimate, increased costs fund a substantial enhancement in the financial training provided to Service members and their families, including training by professional certified financial advisors and an online budget planner that is linked electronically to Service members' restructured Leave and Earnings Statements (LESs). Costs are estimated by multiplying costs per training event by the number of Service members to be trained.

$ Millions	2016	2017	2018	2019	2020	2053	2054	2055
Implementation	10	10	5	-	-	-	-	-
DoD Budget	85	85	80	75	75	75	75	75
Federal Outlays	85	85	80	75	75	75	75	75
Federal Outlays (Then-Year $)	85	87	83	80	81	156	159	162

Assumptions

- Training is provided, on average, to each Service member annually. This training includes initial-entry training for all new entrants and for all personnel ranked E4/O3 and below upon arrival at each duty station, all members at the

[12]Department of Defense, *Concepts For Modernizing Military Retirement*, http://www.mcrmc.gov/public/docs/report/pr/Concepts_for_Modernizing_Military_Retirement_SBP_FN_15_16_27.pdf.

vesting point for the TSP program, on dates of promotion (up to pay grades E5 and O4), for major life events, during leadership and pre- and postdeployment training, at transition, and upon the request of Service members. Using the FY 2013 total force end-strength population, there are 2,272,410 training events annually.

- The cost per training is $33 per Service member.
- DoD estimates enhanced financial literacy training would reduce the number of Service members involuntarily separated due to financial problems, thereby saving $13 million to $137 million annually.[13] These estimates are not included in the Commission's cost estimates.
- Implementation costs include development of training curriculum, procurement of professional trainers services, and development of an online budget planner linked to Service members' LESs.
- For the high-cost (low-savings) estimate, the cost per training event is $44 (twice the Army's estimate). For the low-cost (high-savings) estimate, the cost per training event is $22 (equal to the Army's estimate).

Validation

The Department of the Army estimated that effective one-time personal financial management training could be delivered for $22 per soldier.[14] Because the Commission's recommendation includes professional training, the Army's estimate is increased by 50 percent.

Recommendation 4: Increase efficiency within the Reserve Component by consolidating 30 Reserve Component duty statuses into 6 broader statuses.

The Commission estimates that its recommendation related to RC duty statuses would reduce annual DoD budgetary costs and Federal outlays by streamlining paperwork and other processes related to mobilizations of RC Service members. These savings are expected to be minimal and are not included in the Commission's cost estimates.

Recommendation 5: Ensure Service members receive the best possible combat casualty care by creating a joint readiness command, new standards for essential medical capabilities, and innovative tools to attract readiness-related medical cases to military hospitals.

The Commission estimates that its recommendation related to medical readiness would increase DoD budgetary costs and Federal outlays by $1.1 billion during FY 2016–FY 2020 and result in annual steady-state cost increases of $298 million by FY 2018. In this estimate, these costs result from increases in operating expenses associated with establishing a new four-star Joint Readiness Command (JRC).

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[13] 79 Fed. Reg. 58601 (September 29, 2014). *See also* "Shielding troops from high interest rates may help DoD," *Military Times*, accessed October 8, 2014, http://www.militarytimes.com/article/20141008/NEWS/310080053/Shielding-troops-from-high-interest-rates-mayhelp-DoD.

[14] Office of Economic and Manpower Analysis, Department of Social Sciences, United States Military Academy, *Assessing Financial Education: Evidence from a Personal Financial Management Course*, December 10, 2013.

$ Millions	2016	2017	2018	2019	2020	2053	2054	2055
Implementation	20	10	-	-	-	-	-	-
DoD Budget	20	159	298	298	298	298	298	298
Federal Outlays	20	159	298	298	298	298	298	298
Federal Outlays (Then-Year $)	20	162	310	316	322	619	631	644

Assumptions

- Annual JRC operating costs equal the average operating costs of the existing Combatant Commands,[15] excluding U.S. Transportation Command (TRANSCOM) and U.S. Special Operations Command (SOCOM) because of their unique funding situations.[16] Although actual costs may be less, because some functions may be transferred to the JRC from existing DoD organizations (e.g., the Joint Staff), estimates of such transfers are not included in this cost estimate.

Table 24. Annual Combatant Command Funding Level[17]

	FY13	FY16
USAFRICOM	$285,022,000	$299,805,477
USCENTCOM	$179,266,000	$188,564,141
USEUCOM	$119,267,000	$125,453,122
USNORTHCOM	$200,114,000	$210,493,482
USPACOM	$300,097,000	$315,662,385
USSOUTHCOM	$206,342,000	$217,044,515
USSTRATCOM	$689,821,000	$725,600,529
Average	$282,847,000	$297,517,664

- Implementation costs represent 10 percent of the baseline steady-state cost estimate to fund detailed planning for JRC establishment.

- For the high-cost (low-savings) estimate, JRC operating costs are set at the highest cost of a Combatant Command, excluding TRANSCOM and SOCOM. For the low-cost (high-savings) estimate, JRC operating costs are set at the lowest cost of a Combatant Command, excluding TRANSCOM and SOCOM.

Validation

Costs are based on internal Commission assessments of existing Combatant Command funding.

Recommendation 6: Increase access, choice, and value of health care for active-duty family members, Reserve Component members, and retirees by allowing beneficiaries to choose from a selection of commercial insurance plans offered through a Department of Defense health benefit program.

The Commission estimates that its health benefit recommendation would reduce DoD budgetary costs by $26.5 billion during FY 2016–FY 2020 and result in annual steady-

[15] Feickert, Andrew, "The Unified Command Plan and Combatant Commands: Background and Issues for Congress," Congressional Research Service, January 3, 2013, 12.
[16] Ibid. TRANSCOM is predominantly funded through customer orders and SOCOM receives operational funding.
[17] Ibid. FY 2016 costs extended from 2013 by using DoD Comptroller inflation rates from the National Defense Budget Estimates for 2015, Table 5-2, 52.

state savings of $6.7 billion by FY 2033. Federal outlays would decrease by $3.9 billion during FY 2016–FY 2020 and $3.2 billion annually starting in FY 2033. In this estimate, these reductions are the net result of decreases in costs for providing the health care benefits, decreased cost shares for some beneficiaries, and increased cost shares for other beneficiaries. The decline in DoD budgetary costs also results from accrual funding non-Medicare-eligible retiree health benefit costs. In developing this estimate, the Commission worked closely with the Office of Personnel Management (OPM); procured the services of the Institute for Defense Analyses (IDA) to conduct health benefit pricing analyses; and relied upon data from OPM related to beneficiary demographics, choices, and health care plans in the Federal Employees Health Benefit Program (FEHBP).[18]

$ Millions	2016	2017	2018	2019	2020	2053	2054	2055
Implementation	100	100	-	-	-	-	-	-
DoD Budget	(3,900)	(3,900)	(6,173)	(6,234)	(6,292)	(6,666)	(6,666)	(6,666)
Federal Outlays	100	100	(1,242)	(1,374)	(1,507)	(3,229)	(3,229)	(3,229)
Federal Outlays (Then-Year $)	100	104	(1,341)	(1,541)	(1,756)	(13,295)	(13,813)	(14,352)

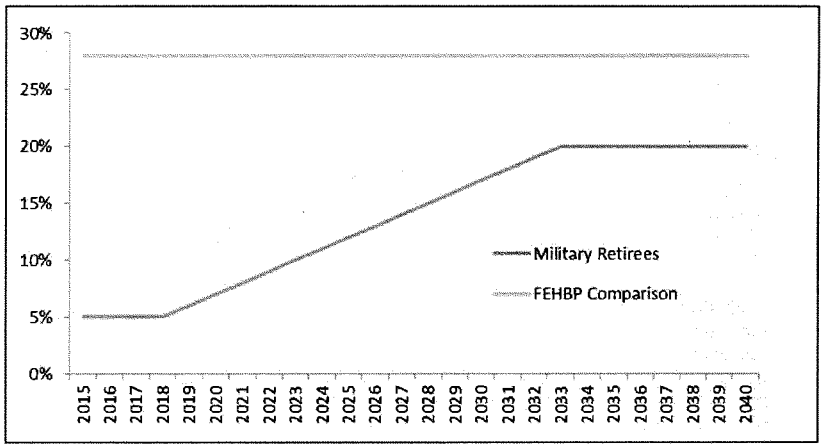
Assumptions

Assumptions used in this estimate are detailed in IDA's report titled "Analyses of Military Healthcare Benefit Design and Delivery: Study in Support of the Military Compensation and Retirement Modernization Commission."[19] Key assumptions include the following:

- The commercial health insurance plan choices of Federal civilians of similar age, income, and state are a proxy for the choices of DoD military beneficiaries.
- The plans offered to DoD military beneficiaries are managed separately (i.e., a separate risk pool) from Federal civilians with their own plan types, coverage requirements, and pricing.
- Each AC Service member with at least one dependent receives a Basic Allowance for Health Care (BAHC) that covers the median health insurance plan premium and average copayments in the dependent's location.
- AC Service members pay 28 percent of the premium for their families' health insurance plan (covered by BAHC), retirees pay 20 percent of their plan premiums, and all beneficiaries pay copayments (covered by BAHC for AC family members).
- Retiree cost shares increase to 20 percent of plan premiums according to the ramp shown in Figure 32.

[18] The Office of Personnel Management provided support for the Commission's analysis, however such support does not represent an endorsement of, or suggest any opinion on, the report, study, or recommendations.
[19] Horowitz, S., P. Lurie, and S. Burns, "Analyses of Military Healthcare Benefit Design and Delivery: Study in Support of the Military Compensation and Retirement Modernization Commission," Institute for Defense Analyses, November, 2014, http://www.mcrmc.gov.

Figure 32. Gradual Ramp of Retiree Cost Shares (1 percent annually)[20]



- The percentage of eligible beneficiaries who do not use TRICARE health benefits remains constant.

- Approximately one-fifth of non-Medicare-eligible retirees and a very small number of AC family members do not use TRICARE.[21] These beneficiaries have historically been referred to as "ghosts" because they are not visible in the TRICARE system, but could return and become active users in the future. Although IDA's baseline estimate holds these nonuse rates constant, the Commission's recommendation improves the quality of the health benefit (choice, access, etc.) and raises cost shares for beneficiaries. Improving quality could increase the number of users; higher costs shares could reduce the number of users. IDA estimated that increasing the number of users with higher quality benefits would reduce annual cost savings by $1 billion.[22] Conversely, decreasing the number of users because of greater cost share would increase annual savings by $1 billion.[23] These reductions and increases to annual savings form the basis for the Commission's high and low cost estimates.

- IDA analyzed a wide range of other excursions to test its cost estimates, including sensitivity to plan-choice behavior, effects of demographic changes on plan prices, and ways in which different beneficiary incentives may affect plan choices. The results of these excursions are described in detail in the IDA report.

[20] The FEHBP premium cost share can vary with the plan selected, 28 percent is used here for illustrative purposes.
[21] Horowitz, S., P. Lurie, and S. Burns, "Analyses of Military Healthcare Benefit Design and Delivery: Study in Support of the Military Compensation and Retirement Modernization Commission," Institute for Defense Analyses, November, 2014.
[22] Ibid.
[23] Ibid.

Validation

The Commission validated the results of this cost estimate with several high-level estimation methods. For example, the estimate is consistent with testimony received by the Commission, as well as DoD reporting on health care costs, and may understate likely savings from modernizing the health care benefit:

- Outside Experts: The Commission received testimony that moving to a commercial insurance program could reduce health care costs by 24 percent,[24] which equates to approximately $5 billion annual reduction to Federal outlays. This is greater than IDA's baseline estimate of health care cost reductions,[25] in part because IDA assumes some potential savings will be reinvested to provide health benefit improvements (i.e., better health care plans with more access, choice of providers, etc.).

- DoD Proposals: Testimony to the Commission from health care experts also indicated that slightly more than half of health care savings would result from increased cost shares for beneficiaries, with the remainder resulting from nonprice tools used by civilian health insurers.[26] DoD has estimated that increasing cost shares within the current TRICARE system, which does not use nonprice tools, would save approximately $2 billion annually.[27] DoD's estimated savings are somewhat more than half of IDA's estimate, which is consistent with the expert testimony received by the Commission.[28]

- Congressional Budget Office (CBO) Proposals: CBO's 2014 report on TRICARE reform options provides two validations of IDA's estimate.[29] First, CBO reports that current annual per-person costs to provide health benefits to TRICARE Prime enrollees and Standard/Extra users are $4,800 and $3,900, respectively.[30] These values imply the total cost of health benefits for the relevant DoD military beneficiary population is similar to IDA's estimate. Second, CBO estimates annual savings from only changes in beneficiary cost shares to be approximately $2 billion.[31] Like DoD estimates, CBO's proposals are consistent with IDA's estimate for a reform that combines both price and nonprice reform tools.

- DoD Reporting to the Congress: On March 5, 2014, DoD provided to the Congress a comparison of the costs of TRICARE beneficiaries to demographically similar civilians.[32] Multiplying the savings identified in the

[24] Testimony of Dr. Gail Wilensky, Project Hope, to the Commission on April 9, 2014.
[25] Horowitz, S., P. Lurie, and S. Burns, "Analyses of Military Healthcare Benefit Design and Delivery: Study in Support of the Military Compensation and Retirement Modernization Commission," Institute for Defense Analyses, November, 2014, 8.
[26] Testimony of Dr. Gail Wilensky, Project Hope, to the Commission on April 9, 2014.
[27] Department of Defense, Fiscal Year 2015 Budget Request, Overview, http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2015/fy2015_Budget_Request_Overview_Book.pdf, p. 5-13.
[28] Testimony of Dr. Gail Wilensky, Project Hope, to the Commission on April 9, 2014.
[29] Congressional Budget Office, Approaches to Reducing Federal Spending on Military Health Care, 8, January 2014, http://www.cbo.gov/sites/default/files/44993-MilitaryHealthcare.pdf.
[30] Ibid.
[31] Ibid, 28.
[32] Department of Defense, *The Evaluation of the TRICARE Program: Access, Cost, and Quality, Fiscal Year 2014 Report*, 91 & 93, accessed January 12, 2015, http://www.health.mil/~/media/MHS/Report%20Files/TRICARE2014_02_25_14v5%201.ashx.

report by the number of affected military beneficiaries suggests annual savings of approximately $5 billion in Federal outlays, which is very similar to the expert testimony described above and greater than IDA's savings estimate.

- Review of Previous Comparisons: The Commission also reviewed available previous studies of health benefit costs under TRICARE and civilian health insurance. These studies compared proposals that differ from the Commission's recommendation (e.g., placing DoD beneficiaries in the FEHBP).[33] For example, these studies generally assumed that the DoD beneficiary population was demographically similar to the Federal civilian workforce, implying similar health risk, plan choices, and premium costs.[34] As IDA's report demonstrates, DoD's military beneficiary population is substantially younger than the Federal civilian workforce, resides in different locations, and has different income levels.[35] Each of these factors affects health care costs, commercial insurance plan premiums, and therefore, estimated costs savings. For these reasons, the Commission found IDA's estimate to be more realistic than previous studies.

Out-of-Pocket (OOP) Costs

The Commission's recommendation balances two competing factors: the desire to preserve low-cost health benefits (particularly for active-duty family members (ADFMs)) and the need to give beneficiaries "skin in the game" to incentivize more efficient health care utilization. The introduction of BAHC enables the use of a common and well understood compensation tool (an allowance) to bring an important innovation from civilian health care (first-dollar responsibility for routine health care). Allowing beneficiaries to keep BAHC amounts not spent on health care provides appropriate incentives to use health benefits efficiently. To determine appropriate BAHC levels, out-of-pocket (OOP) costs were compared under the current TRICARE system and the Commission's recommended health benefit. As shown below, annual OOP costs for the average ADFM household that does not currently have an individual enrolled in TRICARE Young Adult would be $500 less under the recommended health benefit.[36] OOP costs would be $2,500 less under the recommended health benefit for the average ADFM household that has an individual currently enrolled in TRICARE Young Adult.

[33] See Congressional Budget Office Cost Estimate, H.R. 1222, Keep Our Promise to America's Military Retirees Act, February 28, 2007, and Department of Defense, T4 Study Group Final Report, January 17, 2012.
[34] Ibid.
[35] Horowitz, S., P. Lurie, and S. Burns, "Analyses of Military Healthcare Benefit Design and Delivery: Study in Support of the Military Compensation and Retirement Modernization Commission," Institute for Defense Analyses, November, 2014.
[36] Actual out-of-pocket costs will depend on the health plan selected by the ADFM household.

Table 25. Comparison of FY 2014 Out-of-Pocket (OOP) Costs for Active-Duty Service Members without TRICARE Young Adult[37]

Current State	Enrolled in Prime	Standard/Extra User	Average
Current OOP Costs	$97	$493	$177
Recommended State	Enrolled in HMO	Enrolled in PPO	Average
OOP w/ Private Insurance	$561	$920	$830
BAHC Payment	$920	$920	$920
Delta of BAHC and Actual Cost	$359	$0	$90
Net Effect on ADFM			
Savings to Family	$457	$493	$464

Table 26. Comparison of FY 2014 Out-of-Pocket (OOP) Costs for Active-Duty Service Members with TRICARE Young Adult[38]

Current State	Enrolled in Prime	Standard/Extra User	Average
Current OOP Costs	$97	$493	$177
TRICARE Young Adult Premium	$2,160	$1,872	$2,102
TRICARE Young Adult OOP Costs	$0	$194	$39
Total ADFM Costs	$2,257	$2,559	$2,318
Recommended State	Enrolled in HMO	Enrolled in PPO	Average
OOP w/ Private Insurance	$561	$920	$830
BAHC Payment	$920	$920	$920
Delta of BAHC and Actual Cost	$359	$0	$90
Net Effect on ADFM			
Savings to Family	$2,617	$2,559	$2,605

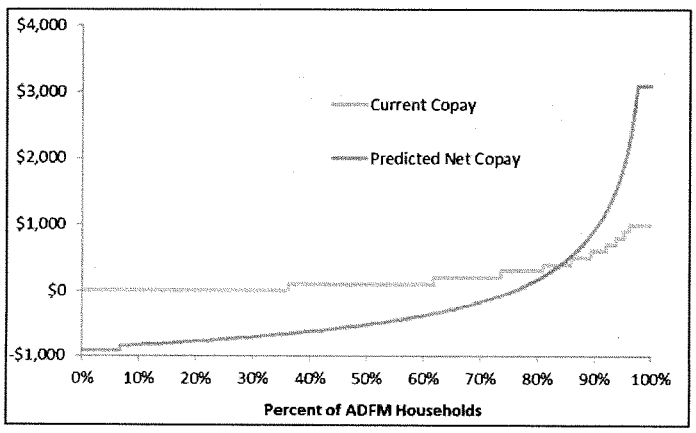
Some families, predominantly those with chronic conditions or a catastrophic illness, have OOP costs that exceed the average. For example, in the United States in 2009, the lowest-cost half of the population accounted for approximately 3 percent of national health care spending, and the highest-cost 5 percent of the population accounted for half of national health care spending.[39] ADFM households that were

[37] In the following tables and figure, "copay" is used to represent all nonpremium out-of-pocket costs. MCRMC calculations based on data from pages 90 and 92 of Department of Defense, *The Evaluation of the TRICARE Program: Access, Cost, and Quality, Fiscal Year 2014 Report*, accessed January 11, 2015, http://www.health.mil/~/media/MHS/Report%20Files/TRICARE2014_02_25_14v5%201.ashx.
[38] MCRMC calculations based on data from pages 90 and 92 of Department of Defense, *The Evaluation of the TRICARE Program: Access, Cost, and Quality, Fiscal Year 2014 Report*, accessed January 11, 2015, http://www.health.mil/~/media/MHS/Report%20Files/TRICARE2014_02_25_14v5%201.ashx. "TRICARE Young Adult Costs," TRICARE, accessed January 11, 2015, http://www.tricare.mil/Costs/HealthPlanCosts/TYA.aspx.
[39] National Institute for Health Care Management, "The Concentration of Health Care Spending," July 2012, accessed December 8, 2014, http://www.nihcm.org/pdf/DataBrief3%20Final.pdf.

enrolled in TRICARE Prime in FY 2013 had a similar cost distribution.[40] The lowest-cost half of the ADFM households accounted for 9 percent of the costs of ADFM households in TRICARE Prime, and the highest-cost 5 percent of households accounted for 34 percent of the total cost.[41]

To mitigate the financial risks of chronic and catastrophic illnesses to ADFM households, the Commission recommends establishing a program to provide these households with additional support for OOP expenses. The following chart displays a comparison of net current ADFM household OOP costs to estimated OOP costs under the recommended health benefit. The comparison assumes that ADFM households would receive $920 of BAHC to cover OOP costs; the total effect of the recommended health benefit is the combination of this BAHC and commercial insurance copayments and deductibles. When a household experiences a catastrophic illness or has a member who is diagnosed with a high-cost chronic condition, the Service member will be able to apply to this program for additional funding to cover OOP expenses. Based on the analysis below, funding this program with $50 million annually would allow for the complete coverage of excess net medical expenses greater than $2,000 per year for all ADFM households that find themselves in such a situation. This estimate was created by taking the estimated OOP amount for the top 4 percent of the distribution and setting aside the difference between that forecasted expense amount and $2,000 above the BAHC amount.

Figure 33. Comparison of Out-of-Pocket Cost Distributions[42]



[40] Commission calculation based on data from Military Health System Management Analysis and Reporting Tool: Inpatient Admissions (SIDR), Professional Encounters (CAPER), PC Institutional (TED-I)), PC Non-Institutional (TED-N). Data for family units, not individuals, was used, making the comparison different.
[41] Ibid.
[42] Ibid.

Based on this analysis, ADFM households can be divided into several categories:

- Approximately 7 percent of ADFM households would have no OOP expenses in a year. The $920 BAHC amount would be equivalent to a $920 pay raise.
- Approximately 70 percent of ADFM households would have some OOP expenses that would be totally covered by the $920 BAHC amount. These households would have some remaining BAHC that would be the equivalent of a pay raise.
- Approximately 8 percent of ADFM households would have OOP expenses in excess of the $920 BAHC amount, but their net OOP expense would still be less than their payment under the current TRICARE program.[43] These households would get the equivalent of a pay raise for the difference between their projected (lower) expenses under the Commission's recommendation and their existing (higher) expenses under the current TRICARE program.[44]
- Approximately 15 percent of ADFM households would have higher OOP expenses under the Commission's recommendation. Approximately one-quarter of these households would experience a substantial increase in their expenses. It is for this category that the Commission recommends a secondary program to assist with OOP costs for chronic or catastrophic illnesses.

Health Care Funding

The Commission's recommendation substantially improves the transparency of funding of the Military Health System (MHS). As shown in the following charts, the MHS is currently resourced by multiple funding categories (operations and maintenance, procurement, military personnel, etc.), rather than supported mission (readiness vs. beneficiary health care).[45]

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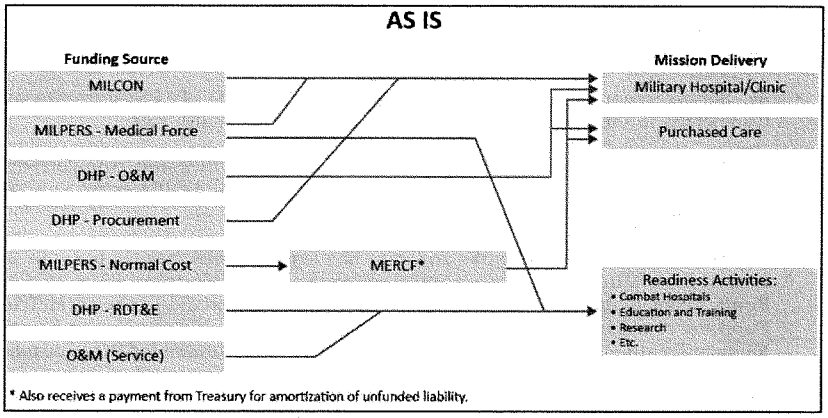
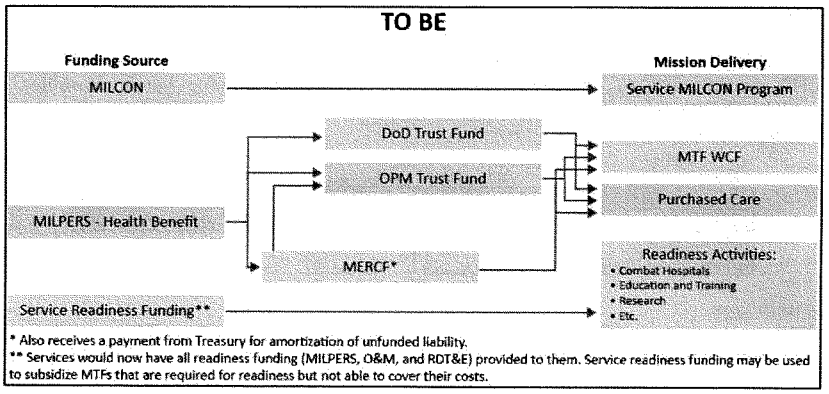
[43] Commission calculation based on data from Military Health System Management Analysis and Reporting Tool: Inpatient Admissions (SIDR), Professional Encounters (CAPER), PC Institutional (TED-I)), PC Non-Institutional (TED-N).
[44] Commission calculation based on data from Military Health System Management Analysis and Reporting Tool: Inpatient Admissions (SIDR), Professional Encounters (CAPER), PC Institutional (TED-I)), PC Non-Institutional (TED-N).
[45] Department of Defense, *The Evaluation of the TRICARE Program: Access, Cost, and Quality, Fiscal Year 2014 Report,* 20, accessed January 11, 2015, http://www.health.mil/~/media/MHS/Report%20Files/TRICARE2014_02_25_14v5%201.ashx. Abbreviations: MILCON = Military Construction, MILPERS = Military Personnel, DHP = Defense Health Program, O&M = Operations and Maintenance, RDT&E = Research, Development, Test, and Evaluation, MERHCF = Medicare-Eligible Retiree Health Care Fund.

Figure 34. Current MHS Resourcing



The Commission recommendations result is a more streamlined, efficient flow of MHS resources, thereby improving MHS transparency, effective management, and the ability to identify and protect readiness funding.

Figure 35. Proposed MHS Resourcing[46]



Under the Commission's recommendation, medical readiness operations would be funded from the Services, with oversight from the JRC. Beneficiary costs would be

[46] Abbreviations: MILCON = Military Construction, MILPERS = Military Personnel, O&M = Operations and Maintenance, RDT&E = Research, Development, Test, and Evaluation, MERHCF = Medicare-Eligible Retiree Health Care Fund, OPM = Office of Personnel Management, MTF = Military Treatment Facility, WCF = Working Capital Fund. The reimbursement rates received by MTFs for the care they deliver to beneficiaries covered by the commercial insurance will contain funding for military construction. That funding would likely be transferred to MILCON accounts for execution.

funded from the Services' Military Personnel (MILPERS) and Military Construction (MILCON) accounts. This approach makes these costs separately identifiable and allows for the direct monitoring of readiness funding. The key flows of funding illustrated in the figure above include the following:

- AC Service member health benefits are funded from MILPERS accounts and transferred to the DoD trust fund for use in paying for health care.
- ADFM health benefits are funded from MILPERS accounts and transferred to the DoD Trust Fund for dental and pharmacy benefits and OPM Trust Fund for commercial health plans.
- Retiree (both Medicare eligible and non-Medicare-eligible) health benefits are funded from MILPERS and paid into the Medicare Eligible Retiree Health Care Fund. Major disbursements from the fund include payments to the OPM Trust Fund for commercial health plans for non-Medicare-eligible retirees and to the Military Treatment Facility revolving fund and purchased care for the pharmacy benefit of non-Medicare-eligible retirees and for all benefits for Medicare-eligible retirees.

Recommendation 7: Improve support for Service members' dependents with special needs by aligning services offered under the Extended Care Health Option to those of state Medicaid waiver programs.

The Commission estimates that its recommendation related to the Extended Care Health Option (ECHO) would increase DoD budgetary costs and Federal outlays by $715 million during FY 2016–FY 2020 and result in annual steady-state cost increases of $190 million by FY 2018. In this estimate, increased costs result from the expansion of services that are covered under the ECHO program, which lead current ECHO participants to use more services and additional eligible Service families to enroll in ECHO. The existing funding cap of $36,000 per fiscal year per dependent remains in place.[47]

$ Millions	2016	2017	2018	2019	2020	2053	2054	2055
Implementation	2	1	-	-	-	-	-	-
DoD Budget	49	96	190	190	190	190	190	190
Federal Outlays	49	96	190	190	190	190	190	190
Federal Outlays (Then-Year $)	49	99	205	213	221	782	813	844

Assumptions

- The average FY 2016 cost per participant for capped services under ECHO increases from $2,490 to $18,748.[48] In 2011, the average per-person cost of services provided by Medicaid Home and Community Based Services (HCBS) program, which offers services similar to those under the proposed ECHO

[47] National Defense, 32 CFR 199.5(f)(3)(i).
[48] Data provided by Office of the Under Secretary of Defense for Personnel and Readiness, e-mail to MCRMC, October 20, 2014 and Department of Defense Annual Report to Congress on Plans for DoD for Support of Military Family Readiness, FY 2013, 45, received from Department of the Army, e-mail to MCRMC, May 22, 2014.

expansion, varied by state from $7,702 to $40,049, with an overall average cost of $17,174 per person.[49]

- ECHO enrollment increases by 25 percent. In FY 2013, 8,094 DoD Exceptional Family Members (EFMs) received ECHO benefits.[50] Under the proposed expansion 10,118 EFMs would receive ECHO benefits.

- Implementation costs include analyzing HCBS waivers across states to determine which services should be added to ECHO, how best to add them, and how to create a model to support consumer-directed care for select services.

- The implementation timeline assumes the current restriction on respite care will be removed and substantially more EFMs will access this benefit in FY 2016. Based on the analysis performed by DoD in FY 2016, new services will be added and accessed in FY 2017, with full implementation by FY 2018.

- For the high-cost (low-savings) estimate, costs are increased by 20 percent to adjust for the uncertainty related to increased ECHO enrollment and average per-person costs. For the low-cost (high-savings) estimate, costs are decreased by 20 percent to adjust for the uncertainty related to increased ECHO enrollment and average per-person costs.

Validation

The Commission validated the expected increase in average cost for ECHO beneficiaries using the current average patient cost reported by the Medicaid HCBS program. Given that this recommendation aligns ECHO benefits with the HCBS program, this should be a strong indicator of the resulting costs. The estimated increase in ECHO program participants was validated through discussions with military family support and advocacy groups. These discussions indicated that increased access to benefits such as respite care is a frequently discussed topic and would clearly motivate additional participation in the ECHO program.

Recommendation 8: Improve collaboration between Department of Defense and Veterans Affairs by enforcing coordination on electronic medical records, a uniform formulary for transitioning Service members, common services, and reimbursements.

The Commission estimates that its recommendation related to collaboration between DoD and VA would reduce annual DoD budgetary costs and Federal outlays by reducing costs for electronic health record development and maintenance, as well as by increasing resource-sharing between the Departments. Costs would increase from expanding VA's drug formulary to ensure continuity of medical care for transitioning Service members. Net funding changes depend upon the collaboration initiatives that are pursued by the Departments and are not included in the Commission's cost estimates.

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[49] The Henry J. Kaiser Family Foundation, *Medicaid Home and Community-Based Services Programs: 2010 Data Update*, 2, accessed January 12, 2015, http://files.kff.org/attachment/report-medicaid-home-and-community-based-services-programs-2011-data-update.

[50] Data provided by Office of the Under Secretary of Defense for Personnel and Readiness, e-mail to MCRMC, October 20, 2014 and Department of Defense Annual Report to Congress on Plans for DoD for Support of Military Family Readiness, FY 2013, 45, received from Department of the Army, e-mail to MCRMC, May 22, 2014.

Recommendation 9: Protect both access to and savings at Department of Defense commissaries and exchanges by consolidating these activities into a single defense resale organization.

The Commission estimates that its recommendation related to DoD commissaries and exchanges would decrease DoD budgetary costs and Federal outlays by $1.0 billion during FY 2016–FY 2020 and result in annual steady-state savings of $515 million by FY 2021. In this estimate, these reductions result from a series of efficiencies, primarily in consolidating back office functions, logistics systems, and staffing. Numerous studies have projected that both financial savings and nonfinancial benefits can be achieved through a consolidation of the three exchanges.[51] Including the commissaries in such a consolidation increases potential efficiencies. The recommendation proposes a new defense resale executive team that would be responsible for evaluating, selecting, and implementing these potential efficiencies. Realized costs and savings therefore depend upon the set of efficiencies selected for implementation.

$ Millions	2016	2017	2018	2019	2020	2053	2054	2055
Implementation	58	93	106	120	89	-	-	-
DoD Budget	17	(78)	(184)	(313)	(426)	(515)	(515)	(515)
Federal Outlays	17	(78)	(184)	(313)	(426)	(515)	(515)	(515)
Federal Outlays (Then-Year $)	17	(79)	(192)	(332)	(461)	(1,071)	(1,092)	(1,114)

Assumptions

- Consolidation of logistics networks: Various studies have estimated the annual savings achievable through a consolidation of logistics networks among the three exchanges.[52] In 2005, the Unified Exchange Task Force (UETF) estimated that $75 million in annual savings was initially available and an additional $75 million to $150 million could be achieved with more aggressive integration. Combining these saving estimates, adjusting for inflation, and applying a 30 percent reduction to account for efficiencies implemented since 2005, annual savings are estimated to be $149 million. Additional savings achieved by including commissaries are not reflected in this estimate.

- Consolidation of staffing: The UETF estimated that 8.9 percent of exchange support staff could be reduced through consolidation of the three exchanges.[53] Applying this percentage to above-store management and support positions of commissaries and exchanges, annual savings are $112 million.

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[51] Office of the Assistant Secretary of Defense (Force Management and Personnel), *DoD Study of the Military Exchange System*, September 7, 1990. *See also* Logistics Management Institute, Report PL110R1, *Toward a More Efficient Military Exchange System*, July 1991. *See also* Systems Research and Applications (SRA) International, *Integrated Exchange System Task Force Analysis*, 1996. *See also* PricewaterhouseCoopers, *Joint Exchange Due Diligence*, 1999, *See also* Unified Exchange Task Force, *Modified Business Case Analysis for Military Exchange Shared Services*, August 26, 2005.

[52] Office of the Assistant Secretary of Defense (Force Management and Personnel), *DoD Study of Military Exchanges*, September 7, 1990, 1-7. *See also* Unified Exchange Task Force, *Modified Business Case Analysis for Military Exchange Shared Services*, August 26, 2005, 64.

[53] Unified Exchange Task Force, *Modified Business Case Analysis for Military Exchange Shared Services, Appendix B: Alternative Descriptions*, August 26, 2005, B-61 (based on a reduction from a baseline of 7,690 full-time equivalents to 7,005).

- Consolidation of supplies and services procurement: The cost of operating supplies and services is reduced by jointly procuring these items across commissaries and exchanges. The UETF estimated $37 million in associated annual savings for the exchanges.[54] This cost estimate includes the same annual savings, adjusted for inflation, even though the UETF did not include consolidation of the commissaries. This savings estimate does not include the procurement of goods for resale.

- Consolidation of capital expenditures: Capital expenditures are reduced by collectively planning, negotiating, and executing capital purchases, such as facilities and information technology (IT) systems, for commissaries and exchanges. The UETF analysis estimated $10 million could be saved annually through consolidation of routine procurements of IT equipment.[55] This cost estimate includes the same annual savings, adjusted for inflation, even though the UETF did not incorporate potential savings from common procurement, refresh of major IT systems, or consolidation of the commissaries.[56]

- Consolidation of retail space: In some areas of military concentration, multiple exchanges and commissaries are operated within close proximity. Consolidation of some of these facilities provides annual savings of $8 million.[57]

- Use of the MILITARY STAR® Card at commissaries: The MILITARY STAR® Card is a "private label" credit card provided by AAFES that allows the exchanges to avoid credit card processing fees and to profit from the interest that card holders pay on outstanding balances.[58] Based on data and analysis provided by AAFES, exchange customers, on average, make 20 percent of their purchases using the MILITARY STAR® Card, maintain a balance approximately equal to 15 percent of their purchases, and pay a 10.24 percent financing rate.[59] Expanding use of the MILITARY STAR® Card to 15 percent of commissary purchases yields approximately $11 million in additional annual revenue.

- Reduction of second destination transportation (SDT) costs: In FY 2013, approximately $331 million of appropriated funds (APF) was spent on shipping goods from the United States to overseas commissaries and exchanges.[60] Increased local sourcing reduces annual SDT costs by 10 percent, or $33 million.

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[54] Unified Exchange Task Force, *Modified Business Case Analysis for Military Exchange Shared Services, Executive Summary*, August 26, 2005.
[55] Ibid, E-1.
[56] Unified Exchange Task Force, *Modified Business Case Analysis for Military Exchange Shared Services, Appendix D: Cost Basis of Estimate*, August 26, 2005.
[57] Based on information provided by DeCA, the average cost of operating a commissary was approximately $4 million in FY 2012, e-mail to MCRMC, May 6, 2014.
[58] Army and Air Force Exchange Service, Memorandum for ASD (R&FM), Army and Air Force Exchange Service (AAFES) Response to Commissary Legislative Proposal, March 17, 2014. Tom Shull, Chief Executive Officer, *Army & Air Force Exchange Service Overview*, briefing to MCRMC, June 10, 2014. AAFES, briefing to discuss AAFES response to Commissary legislative proposals with MCRMC, July 2, 2014.
[59] Ibid.
[60] Commissary SDT data ($152 million for FY 2013) provided by Defense Commissary Agency, e-mail to MCRMC, May 6, 2014. Exchange SDT data ($179 million for FY 2013) provided by Office of the Under Secretary of Defense for Personnel and Readiness, e-mail to MCRMC, November 6, 2014.

- Expansion of commissary sales with variable pricing: Changes to laws and policies, combined with a consolidation of commissaries and exchanges facilitates the commissaries selling new items at a profit, including beer and wine, convenience items (e.g., greeting cards, school supplies, cosmetics), and private-label (store brand) products. Based on an overall increase in the sale of these products by the consolidated organization, annual profits increase by $45 million.

- Conversion of the commissary workforce from APF to nonappropriated fund (NAF) employees: Commissary personnel continue to be funded by APF. Based partially on a 2002 DoD internal study,[61] however, converting the commissary workforce to NAF employees who are funded by APF reduces staffing costs by $110 million. This estimate includes an increase in staffing costs for exchanges associated with adding grocery employees to NAF wage surveys.

- Implementation cost estimates are based, where possible, on estimates provided in source studies. When scaling exchange estimates to apply to commissaries, the relative sizes of their sales, infrastructures, and staffs were considered. Implementation periods are assumed to be between 1 and 5 years, depending on the complexity of the change. Implementation costs are distributed across these years, accounting for time to modify laws and policies and dependencies on other changes. For conversion of commissary staff, 30 percent of the assumed transition-period savings are assumed as transition-period costs.

- High-cost (low-savings), and low-cost (high-savings) estimates, for each efficiency or cost-saving effort, wherever possible, are based on ranges provided in the cited studies. In other cases, cost uncertainty is made using consistent categories: high (+100, -50 percent), medium (+50, -30 percent), and low (+20, -10 percent) uncertainty. Similar categories are for savings: high (+50, -80 percent), medium (+50, -30 percent), and low (+20, -10 percent) uncertainty. These categories were assigned based on the availability of reliable analysis.

Validation

The Commission validated the results of this cost estimate using several high-level estimation methods. For example, the estimate is consistent with testimony received by the Commission, discussions with leadership of the commissaries and exchanges, and multiple studies conducted by DoD. Information drawn from studies was validated, where possible, against similar information in other studies and reports, including the following:

- DoD Study of the Military Commissary System, DoD[62]

- Study of the Military Exchange System, DoD[63]

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[61] DeCA Nonappropriated Fund Workforce – Feasibility and Desirability, DASD (MC&FP) and DASD (CPP) In-Progress Review, June 26, 2002.
[62] The Jones Commission, *DoD Study of the Military Commissary System, December 18, 1989*, provided by OSD (P&R) via CD on June 11, 2014.

- Toward a More Efficient Military Exchange System, Logistics Management Institute[64]
- Potential Reductions to the Operation and Maintenance Programs, United States General Accounting Office (GAO)[65]
- DoD Review of GAO Report on Military Commissaries and Exchanges, DoD[66]
- Military Exchange System Study, Systems Research and Applications (SRA) International[67]
- Joint Exchange Due Diligence, PricewaterhouseCoopers[68]
- Briefing on Joint Exchange Due Diligence Study, Assistant Secretary of Defense (Force Management Policy)[69]
- Modified Business Case, UETF[70]

Recommendation 10: Improve access to child care on military installations by ensuring the Department of Defense has the information and budgeting tools to provide child care within 90 days of need.

The Commission's child care recommendation would not have a direct effect on annual DoD budgetary costs or Federal outlays. The recommendation reestablishes the authority to use operating funds for minor construction projects to create or modify Child Development Program (CDP) facilities. The proposal only has financial implications if the Services chose to fund projects under this authority. DoD may also address local needs and waiting times by funding additional CDP staff or expanding home- or community-based child care programs. Existing staff will track wait time data and implement the position description changes, as well as those contained in the proposed rules for background checks on individuals employed by DoD in child care services programs. These costs are expected to be minimal and are not included in the Commission's cost estimates.

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[63] Office of the Assistant Secretary of Defense (Force Management and Personnel), *DoD Study of the Military Exchange System*, http://www.mcrmc.gov/public/docs/report/qol/DoD_Study-of-Military-Exchange-System_Sep1990.pdf.
[64] "Toward a More Efficient Military Exchange System," Logistics Management Institute, Report PL110R1, July 1991, accessed November 20, 2014, http://oai.dtic.mil/oai/oai?verb=getRecord&metadataPrefix=html&identifier=ADA255738.
[65] Government Accountability Office, *Potential Reductions to Operation and Maintenance Program*, GAO/NSIAD-95-200BR, September, 1995, 12, accessed December 21, 2014, http://www.gpo.gov/fdsys/pkg/GAOREPORTS-NSIAD-95-200BR/pdf/GAOREPORTS-NSIAD-95-200BR.pdf.
[66] DoD Review of GAO Report on Military Commissaries and Exchanges, December 9, 1995, provided by OSD (P&R) via CD on June 11, 2014.
[67] Systems Research and Applications (SRA) International, *Integrated Exchange System Task Force Analysis, 1996*, accessed December 21, 2014, http://www.mcrmc.gov/public/docs/report/qol/1996_Exchange_Study-SRA_International-Provided_by_OSD-11JUN2014_DeRA-FN45.pdf.
[68] PricewaterhouseCoopers, *Joint Exchange Due Diligence*, 1999.
[69] Briefing on Joint Exchange Due Diligence Study, Assistant Secretary of Defense (Force Management Policy), 16 October 2000, provided by OSD (P&R) via CD on June 11, 2014.
[70] Unified Exchange Task Force, *Modified Business Case Analysis for Military Exchange Shared Services*, August 26, 2005, provided to MCRMC by the Office of the Under Secretary of Defense for Personnel and Readiness, June 11, 2014.

Recommendation 11: Safeguard education benefits for Service members by reducing redundancy and ensuring the fiscal sustainability of education programs.

The Commission estimates that its recommendation related to Service member education would reduce DoD budgetary costs by $87 million during FY 2016–FY 2020 and result in annual steady-state savings of $17 million upon implementation. Federal outlays would decrease by $15.6 billion during FY 2016–FY 2020 and $4.8 billion annually starting in FY 2025. In this estimate, changes in DoD budgetary costs result from elimination of unemployment benefits for veterans who are using Post-9/11 GI Bill benefits. Reductions in Government outlays primarily accrue to VA, which funds the Montgomery GI Bill-Active Duty (MGIB-AD), Reserve Education Assistance Program (REAP), and the Post-9/11 GI Bill.

$ Millions	2016	2017	2018	2019	2020	2053	2054	2055
Implementation	-	-	-	-	-	-	-	-
DoD Budget	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)
VA Budget	120	(2,126)	(4,667)	(4,478)	(4,542)	(4,757)	(4,757)	(4,757)
Treasury Budget	48	42	36	30	24	-	-	-
Federal Outlays	151	(2,102)	(4,649)	(4,466)	(4,535)	(4,774)	(4,774)	(4,774)
Federal Outlays (Then-Year $)	151	(2,144)	(4,836)	(4,739)	(4,909)	(9,929)	(10,127)	(10,329)

Assumptions

- These cost estimates are based on a model developed by the Commission to estimate future costs of the Post-9/11 GI Bill and its components,[71] including Service member/veteran tuition, Service member/veteran housing stipend, transferred tuition, and transferred housing stipend. The model is populated with historical data from DoD and VA on utilization and transference of Post-9/11 GI Bill and force structure data for FY 2009 through FY 2013. Future force structure and Service member YOS are projected. Future transfer of benefits to spouses and children, as well as the utilization of benefits by Service members, veterans, and their dependents, are consistent with historical data.

- Sunsetting the MGIB-AD increases annual costs of education benefits by $98 million initially. In FY 2013, the average payment to a MGIB-AD student was $8,551, compared to the average payment to a Post-9/11 GI Bill student of $13,465.[72] This cost estimate includes reductions to payments to the Department of the Treasury, which currently receives $1,200 from each Service member signing up for the MGIB-AD.[73] These costs decrease over time because MGIB-AD participation is already decreasing as more Service members choose the Post-9/11 GI Bill.[74]

- Sunsetting REAP increases annual costs of education benefits by $22 million initially. In FY 2013, REAP students received an average payment of only

[71] The Commission was unable to obtain such cost projections from DoD or VA.
[72] U.S. Department of Veterans Affairs, *Congressional Budget Submission for FY 2015 Volume III Benefits and Burial Programs and Departmental Administration*, VBA-33.
[73] Veterans' Benefits, 38 U.S.C. § 3011(b).
[74] Data provided by Office of the Under Secretary of Defense for Personnel and Readiness, e-mail to MCRMC, September 26, 2014.

$4,028.[75] These incremental costs are expected to decrease over time because REAP participation is already declining.[76]

- Eliminating unemployment benefits of veterans receiving housing stipend payments as part of Post-9/11 GI Bill reduces DoD unemployment payments by approximately 2 percent.[77] In FY 2013, the Services paid $828 million in unemployment benefits.[78] A 2 percent reduction decreases annual unemployment costs by $17 million.

- Eliminating the housing stipend for dependents who receive Post-9/11 GI Bill benefits through transfer, and changing the eligibility requirement for transferring Post-9/11 GI Bill benefits from 6 years of service (YOS), with a 4-year additional commitment, to 10 YOS, with a 2-year additional commitment, reduces annual costs by $4.8 billion.

- DoD and VA currently collect some limited data on students enrolled in programs with the Post-9/11 GI Bill and Tuition Assistance. Expanded data collection for those enrolled in these programs should be incorporated into the existing system, limiting the cost to the VA and DoD. Because these costs are expected to be limited, they are not estimated.

- No significant implementation costs are identified.

- For the high-cost (low-savings) estimate, 10 percent is added to all cost estimates to adjust for uncertainties. For the low-cost (high-savings) estimate, 10 percent is reduced from all cost estimates to adjust for uncertainties.

Validation

The Commission validated the results of this estimate using the internally generated cost model described above. As expected, this model predicted cost increases beyond simpler projections that were based solely on historical growth and general inflation. This accelerating growth in cost is also consistent with the inputs received from Service members and advocacy groups indicating the increasing awareness and utilization of education assistance, either by Service members or their dependents. Estimated costs for the MGIB-AD and REAP programs were also validated against historical costs and trends.

Recommendation 12: Better prepare Service members for transition to civilian life by expanding education and granting states more flexibility to administer the Jobs for Veterans State Grants Program.

The Commission estimates that its recommendation related to transition benefits would increase DoD budgetary costs and Federal outlays by $65 million during

[75] U.S. Department of Veterans Affairs, *Congressional Budget Submission for FY 2015 Volume III Benefits and Burial Programs and Departmental Administration*, VBA-33.
[76] Ibid.
[77] Data was not available to precisely calculate the number of Service members simultaneously receiving unemployment compensation and BAH benefits under the Post-9/11 GI Bill.
[78] Department of Defense, *Budget Amendment to the Fiscal Year 2015 President's Budget Request for Overseas Contingency Operations (OCO)*, June 2014, accessed September 25, 2014, http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2015/amendment/fy2015_m1a.pdf.

FY 2016–FY 2020 and result in annual steady-state cost increases of $13 million upon implementation. In this estimate, these cost increases result from requiring greater participation in the Transition GPS education track, which is currently optional, thereby increasing the number of mandatory transition classes.

$ Millions	2016	2017	2018	2019	2020	2053	2054	2055
Implementation	-	-	-	-	-	-	-	-
DoD Budget	13	13	13	13	13	13	13	13
Federal Outlays	13	13	13	13	13	13	13	13
Federal Outlays (Then-Year $)	13	13	14	14	14	27	28	28

Assumptions

- In FY 2013 DoD spent $123 million for Transition GPS.[79] Increasing mandatory training is expected to increase DoD program costs by 10 percent, or $13 million in FY 2016.
- Increasing attendance of One-Stop Career Center employees at Transition GPS classes, and expanding their reporting, is not expected to affect costs.
- Requiring a one-time report to the Congress regarding the challenges employers face when seeking to hire veterans is not expected to be substantial and was not estimated.
- Implementation costs are expected to be negligible.
- For the high-cost (low-savings) estimate, costs are increased by 10 percent to adjust for the uncertainty of current participation in the Transition GPS education track. For the low-cost (high-savings) estimate, costs are decreased by 10 percent to adjust for the uncertainty of current participation in the Transition GPS education track.

Validation

The Commission validated the cost increases associated with modifications to the Transition GPS course using historical program funding costs. The assessment that One-Stop Career Center employees can increase their participation in Transition GPS classes with no significant increase in personnel costs was validated through discussions with individuals serving as Disabled Veterans' Outreach Program Specialists and/or Local Veterans' Employment Representatives.[80]

Recommendation 13: Ensure Service members receive financial assistance to cover nutritional needs by providing them cost-effective supplemental benefits.

The Commission estimates that its recommendation related to the Family Subsistence Supplemental Allowance (FSSA) program would reduce DoD budgetary costs by $4 million during FY 2016–FY 2020 and result in annual steady-state savings of $1 million by FY 2017. Federal outlays would not be substantially affected by this

[79] MCRMC, *Report of the Military Compensation and Retirement Modernization Commission: Interim Report*, June 2014, 248-267 and 284, http://www.mcrmc.gov/index.php/reports.
[80] Virginia Employment Commission Workforce Center, discussion with MCRMC, October 3, 2014.

recommendation. In this estimate, these reductions result from elimination of the FSSA program in the United States and other regions in which benefits are available under the Department of Agriculture's Supplemental Nutrition Assistance Program (SNAP). Government outlays would not change substantially, because benefits received under FSSA would instead be provided under SNAP.

$ Millions	2016	2017	2018	2019	2020	2053	2054	2055
Implementation	-	-	-	-	-	-	-	-
DoD Budget	-	(1)	(1)	(1)	(1)	(1)	(1)	(1)
USDA Budget	-	1	1	1	1	1	1	1
Federal Outlays	-	-	-	-	-	-	-	-
Federal Outlays (Then-Year $)	-	-	-	-	-	-	-	-

Assumptions

- FY 2013 funding for the FSSA program was $1.1 million.[81] Assuming 75 percent of FSSA recipients reside in locations in which SNAP is available, sunsetting FSSA in such locations reduces DoD costs by approximately $0.9 million.
- SNAP costs increase by approximately $1 million. As discussed in the findings section for this recommendation, SNAP payments are often larger than those received through FSSA.
- Implementation costs are expected to be negligible.

Validation

The Commission validated estimates of cost reductions in DoD and the additional cost imposed on the Department of Agriculture through an internal analysis of data from the Defense Manpower Data Center. These data included much of the input used in the determination of SNAP and FSSA payments for Service members, allowing the Commission to validate estimates of the difference between the payments an individual might receive under each program and the demographics of eligible Service member households.

Recommendation 14: Expand Space-Available travel to more dependents of Service members by allowing travel by dependents of Service members deployed for 30 days or more.

The Commission estimates that its recommendation related to space-available travel would not have a noticeable effect on annual DoD budgetary costs or Federal outlays. This recommendation reprioritizes the use of available spaces for unofficial travel, but does not propose any change in the operation of military aircraft. The only costs expected with this recommendation are those associated with changing DoD regulations, local waiting list processes, and associated informational material. These costs are expected to be minimal and are not included in the Commission's cost estimates.

[81] Seventy-five percent of FY 2013 FSSA recipients resided in CONUS. Director of Military Compensation, Office of Personnel and Readiness, data supplied by e-mail to MCRMC, August 13, 2014. Of the 80 recipients stationed overseas, 62 were in Germany. Director of Military Compensation, Office of Personnel and Readiness, data supplied by e-mail to MCRMC, September 5, 2014.

Recommendation 15: Measure how the challenges of military life affect children's school work by implementing a national military dependent student identifier.

The Commission estimates that its recommendation related to a military dependent student identifier would not have a noticeable effect on annual DoD budgetary costs or Federal outlays. Establishing a national military student identifier requires changes to processes and data systems at the local, state, and national levels, which rely upon a variety of technologies. Some advocates have described the necessary modification costs to be small,[82] and they are not included in the Commission's cost estimates.

[82] "Issue 9: Assign an identifier for military children in education data systems," USA4Military Families Initiative, accessed September 17, 2014, http://www.usa4militaryfamilies.dod.mil/MOS/f?p=USA4:ISSUE:0::::P2_ISSUE:9. (Adding a field in an existing student information system should cause minimal additional cost, especially if the state has a single statewide system for collecting education data.)

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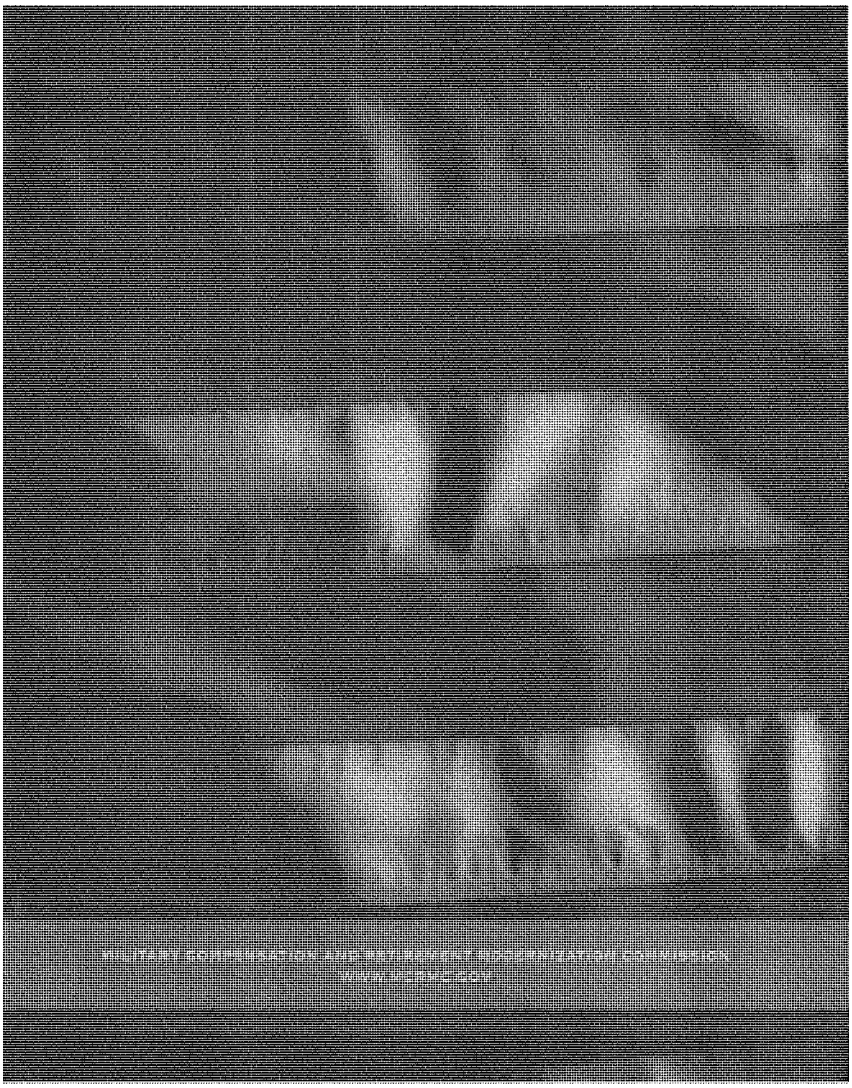
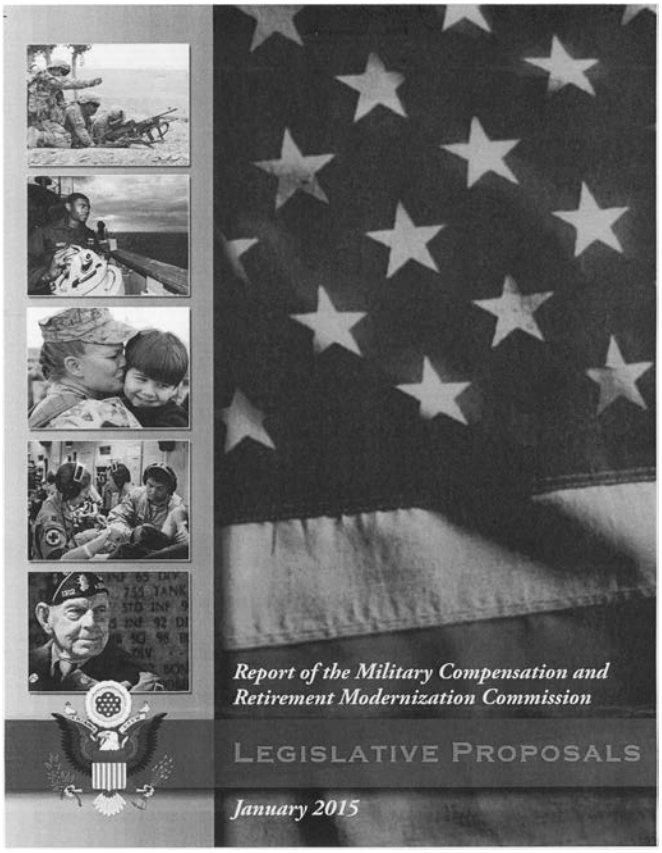


APPENDIX B—LEGISLATIVE PROPOSALS OF THE MILITARY COMPENSATION AND RETIREMENT MODERNIZATION COMMISSION



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Report of the Military Compensation and Retirement Modernization Commission

LEGISLATIVE PROPOSALS

January 2015

Legislative Proposals Implementing MCRMC Recommendations

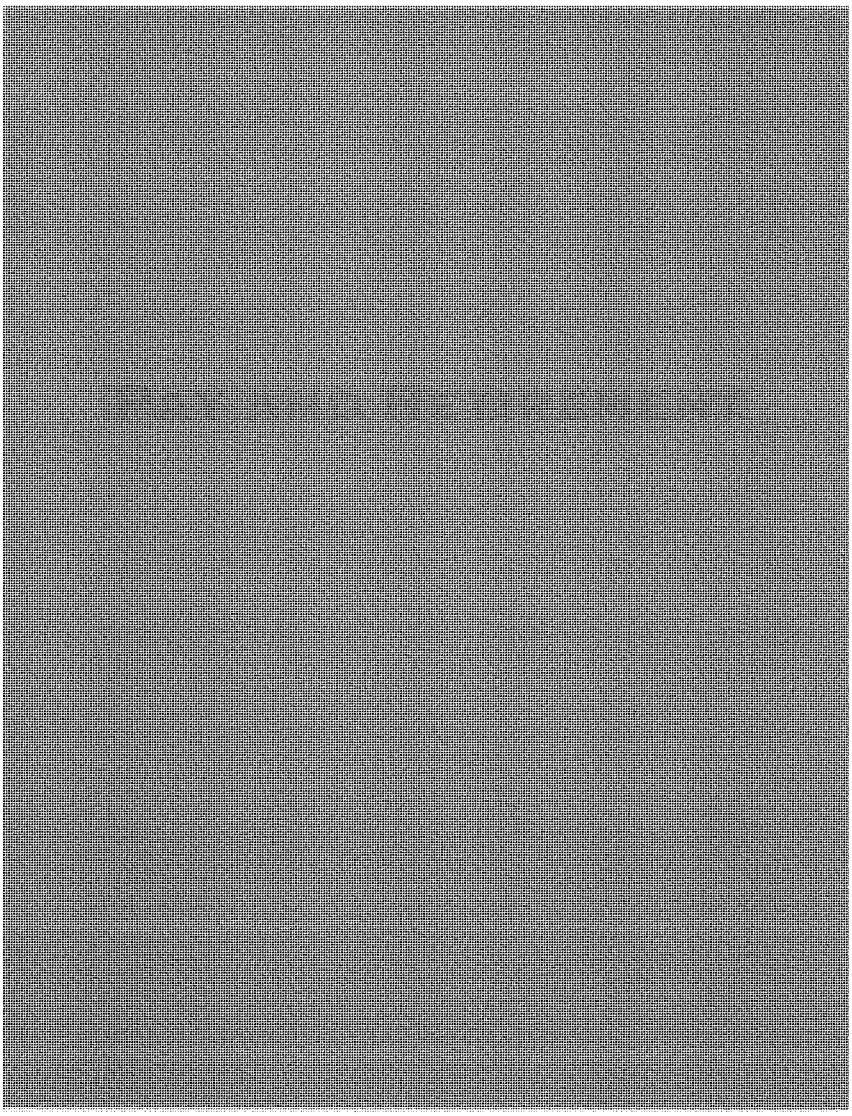
Proposed Section	Title	Synopsis
101	Thrift Savings Plan Participation for Members of the Uniformed Services	This proposal amends multiple sections of chapter 84 of title 5, United States Code, to modernize the retirement system of the uniformed services by providing Thrift Savings Plan (TSP) matching contributions for certain members of the uniformed services, requiring annual automatic enrollment in the TSP program for certain members, providing certain members with full vesting in the TSP program at 2 years of service, and changing the TSP default investment fund to the age-appropriate target date asset allocation investment fund.
102	Modernized Retirement System for Members and Retirees	This proposal amends 10 U.S.C. 1409(b) to establish a modernized retirement system by providing certain members of the uniformed services and retirees with the option to receive TSP matching contributions, accept reduced retirement multipliers, and receive lump sum retirement payments. The proposal also makes conforming amendments to other retirement authorities throughout the United States Code.
103	Lump Sum Payments	This proposal adds a new section 1415 to chapter 71 of title 10, United States Code, that provides for lump sum payments of certain retired pay.
104	Authority for Retirement Flexibility	This proposal adds a new section 1416 to chapter 71 of title 10, United States Code, that allows the Secretary of Defense to modify the years of service required for a member to retire in order to facilitate management actions that shape the personnel profile or correct manpower shortages within an occupational specialty or other grouping.
105	Treatment of the Department of Defense Military Retirement Fund as a Qualified Trust Fund	This proposal adds a new section 1468 to chapter 74 of title 10, United States Code, that requires the Department of Defense Military Retirement Fund to be treated as a trust described in section 401(a) of the Internal Revenue Code of 1986 and exempt from taxation under section 501(a) of such Act.
106	Modernized Retirement System for Reserve Component Members	This proposal amends 10 U.S.C. 12739 to provide reserve component members with the option to receive TSP matching contributions, accept reduced retirement multipliers, and receive lump sum retirement payments.
107	Continuation Pay	This proposal adds a new section 356 to chapter 5 of title 37, United States Code, that requires the Secretary of Defense to award continuation payments to certain members of the uniformed services who have 12 years of service and agree to 4 additional years of service, and a new section 357 of such title that permits the Secretary of Defense to award continuation payments to certain members who have 12 years of service and agree to 4 additional years of service.
108	Lump Sum Repayments	This proposal adds a new subsection (d) to 38 U.S.C. 5304 that reduces the amount of pension and compensation payments made to a person by the Department of Veterans Affairs by the amount of any lump sum payment received by the person under proposed section 1415 of title 10, United States Code.
201	Increased Service Member Choice in Survivor Benefit Plan	This proposal amends 10 U.S.C. 1452 to provide members with the option of new Survivor Benefit Plan (SBP) coverage that is not offset by the Dependency and Indemnity Compensation (DIC) Program.
301	Improving Financial Literacy and Preparedness	This proposal amends 10 U.S.C. 992 to increase the frequency and strengthen the content of financial literacy training. The proposal also requires that a survey of the status of the financial literacy and preparedness of members of the Armed Forces be included in the annual status of forces survey.
302	Financial Literacy Training for Members of the Uniformed Services	The proposal requires the Secretary concerned to provide the financial literacy training under 10 U.S.C 992 that is related to health insurance, budget management, the Thrift Savings Plan (TSP), retirement lump sum payments, and the Survivor Benefit Plan (SBP) to members of the uniformed services not later than 6 months after the date of enactment.
303	Sense of Congress Regarding Financial Literacy and Preparedness	This proposal expresses the sense of Congress that the Secretary of Defense should strengthen arrangements with other Federal agencies and nonprofit organizations to improve the financial literacy and preparedness of members of the Armed Forces. The proposal also encourages the Chairman of the Joint Chiefs of Staff and the Service Chiefs to provide support for financial literacy and preparedness training.
401	Consolidation of Authorities to Order Reserve Component Members to Perform Duty	This proposal amends chapter 1209 of title 10, United States Code, to provide for a streamlined, consolidated Reserve Component status system by replacing the current 30 Reserve Component duty statuses with 6 broader statuses. The proposal also makes conforming amendments throughout the United States Code to reflect the consolidation.

Proposed Section	Title	Synopsis
402	General Technical Amendments	This proposal requires the Secretary of Defense to submit to the Committees on Armed Services of the Senate and House of Representatives a draft of legislation to make any technical or conforming amendments that are required or should be made by reason of the amendments made by section 401.
501	Directorate for Medical Readiness	This proposal adds a new subsection (h) to 10 U.S.C. 155 that establishes within the Joint Staff a Directorate for Medical Readiness to advise the Chairman of the Joint Chiefs of Staff on medical readiness.
502	Joint Readiness Command	This proposal adds a new section 169 to chapter 6 of title 10, United States Code, that establishes a Joint Readiness Command as a unified combatant command for readiness.
503	Joint Requirements Oversight Council	This proposal amends section 10 U.S.C. 181(d)(1) to include the Director for Medical Readiness as an advisor to the Joint Requirements Oversight Council with respect to matters related to medical readiness.
504	Joint Medical Readiness Oversight Council	This proposal adds a new section 181a to chapter 7 of title 10, United States Code, that establishes a Joint Medical Readiness Oversight Council to assist and advise the Chairman of the Joint Chiefs of Staff with respect to joint medical readiness matters.
505	Treatment of Veterans and Civilians at Military Medical Treatment Facilities	This proposal adds a new section 1110c to chapter 55 of title 10, United States Code, that allows a veteran or civilian to be treated at certain military medical treatment facilities in order to maintain the military's essential medical capabilities.
506	Military Medical Personnel Training	This proposal adds a new section 2017 to chapter 101 of title 10, United States Code, that authorizes military medical personnel to train in Department of Veterans Affairs facilities or in civilian facilities in order to maintain the military's essential medical capabilities.
507	Military Medical Treatment Facilities Working-Capital Funds	This proposal adds a new section 2208a to chapter 131 of title 10, United States Code, that establishes a working-capital fund for each military department for the operation of military medical treatment facilities under the jurisdiction of the military department.
508	Sustainment of Essential Medical Capabilities	This proposal adds a new chapter 174 to title 10, United States Code, that requires the Secretary of Defense to establish essential medical capabilities for the Armed Forces.
601	Health Insurance	This proposal adds a new chapter 55A to title 10, United States Code, that establishes a new health insurance program to provide health insurance coverage to certain dependents of members of the uniformed services, certain reserve component members of the Armed Forces, non-Medicare eligible members or former members of a uniformed service entitled to retired or retainer pay, or equivalent pay, the dependents of such non-Medicare eligible members or former members, and certain Medal of Honor recipients and their dependents.
602	Department of Defense Health Care Trust Fund	This proposal adds a new section 1110c to chapter 55 of title 10, United States Code, that establishes the Department of Defense Health Care Trust Fund to finance health, dental and pharmacy benefits for certain members of the uniformed services and the dependents of such members.
603	Retiree Health Care Fund	This proposal amends chapter 56 of title 10, United States Code, to expand the scope of the existing Department of Defense Medicare-Eligible Retiree Health Care Trust Fund in order to finance the liabilities of non-Medicare eligible retirees under certain uniformed services retiree health care programs.
604	Basic Allowance for Health Care	This proposal adds a new section 402b to chapter 7 of title 37, United States Code, that provides a basic allowance for health care to members of the uniformed services who are on active duty for a period of more than 30 days and have dependents. The proposal also makes conforming amendments to the Internal Revenue Code of 1986 with respect to the basic allowance for health care.
605	General Technical Amendments	This proposal requires the Secretary of Defense to submit to the Committees on Armed Services of the Senate and House of Representatives a draft of legislation to make any technical or conforming amendments that are required or should be made by reason of the amendments made by sections 601 through 604.
801	Uniform Formulary	This proposal adds a new subparagraph (G) to 10 U.S.C. 1074g(a)(2) that requires the Joint Executive Committee to determine the classes of drugs that are critical for the transition from military service, and creates a strategic uniform formulary that includes the drugs that are critical for the transition from military service.

Proposed Section	Title	Synopsis
802	Resource Sharing Agreements	This proposal adds a new subsection (e) to 10 U.S.C 1104 and a new subsection (g) to 38 U.S.C 8111 requiring the Secretaries of Defense and Veterans Affairs to establish categories of resource sharing agreements that can be quickly and efficiently implemented by the heads of local medical facilities, and requiring the Secretaries to establish standardized model resource sharing agreements.
803	Joint Executive Committee	This proposal amends 38 U.S.C. 320 to require the Joint Executive Committee to develop a common services definition and to establish a strategic plan for the joint coordination and sharing efforts between the Department of Defense and the Department of Veterans Affairs. The proposal also establishes interagency agreements between the two departments and requires the Joint Executive Committee to review and approve or disapprove any acquisition, sustainment, restoration or modernization of certain medical capital assets of the two departments.
804	Electronic Health Records	This proposal requires the Secretary of Defense and the Secretary of Veterans Affairs jointly to establish an electronic health record within the health record system of the Department of Veterans Affairs for each member of the Armed Forces and each individual who completes a military service specific enlisted or officer accession program.
901	Definition of Employee	This proposal amends the 5 U.S.C. 2105(c) definition of employee to refer to the defense resale system rather than the exchanges of the individual military services.
902	Defense Resale System	This proposal amends 10 U.S.C 2481 to consolidate DOD's commissaries and exchange systems into a single defense resale system that combines resources, increases operational flexibility, and better aligns incentives and policies.
903	Commissary Stores: Use of Appropriated Funds to Cover Operating Expenses	This proposal amends 10 U.S.C 2483 to provide that the operation of the defense resale system related to commissaries may be funded using appropriated funds. The proposal requires the executive governing body of the defense resale system to approve the portion of commissary operating expenses to be funded with appropriated funds. The proposal also permits nonappropriated funds generated by the defense resale system and certain other additional funds to be used to supplement the expenses of operating the defense resale system and commissary stores.
904	Commissary Stores: Merchandise That May Be Sold; Uniform Surcharges and Pricing	This proposal amends 10 U.S.C. 2484 to require the Secretary of Defense to establish the sales price of each item of merchandise, within certain revised categories, that is sold in, at, or by commissaries.
905	Defense Resale System Operations	This proposal amends 10 U.S.C. 2485 with respect to the operations of the defense resale system, and establishes an executive governing body for the defense resale system to oversee operations of the system, including personnel matters. The proposal also amends the type of commercially valuable information of the defense resale system that may be released to the public.
906	Consolidation of the Defense Resale System	This proposal amends 10 U.S.C. 2487 to consolidate the operation and administration of the commissary system and exchange system into a single defense resale system, and disestablishes to Defense Commissary Agency.
907	Combined Exchange and Commissary Stores	This proposal repeals section 2488 of title 10, United States Code, relating to combined exchange and commissary stores.
908	Overseas Commissary and Exchange Stores: Access and Purchase Restrictions	This proposal amends 10 U.S.C. 2489 to change references to the commissary and exchange system to references to the defense resale system.
909	Clerical Amendments and References	This proposal makes technical and clerical conforming amendments throughout chapter 147 of title 10, United States Code, changing references from the commissary and exchange system to the defense resale system.
1001	Child Care Services	This proposal amends 10 U.S.C. 2805 to raise the threshold for a minor military construction project to $15,000,000 when the minor military construction project creates, expands, or modifies a child development facility serving children from birth through 12 years of age. The proposal also allows the Secretary concerned to spend for such projects not more than $7,500,000 from appropriations available for operations and maintenance.
1101	Montgomery GI Bill Sunset	This proposal adds a new section 3037 to chapter 30 of title 38, United States Code, that limits the availability of the Montgomery GI Bill Program to eligible individuals who have had a reduction in basic pay for educational assistance under chapter 30 of title 38, United States Code, before October 1, 2015.
1102	Reserve Education Assistance Program Continuing Eligibility and Sunset	This proposal adds a new section 16167 to chapter 1607 of title 10, United States Code, that provides continuing eligibility for the Reserve Education Assistance Program to members who entered service before the date of enactment and were enrolled in a course of study for the period of enrollment immediately preceding the date of enactment. The new section also sunsets the authority to provide educational assistance under the program 4 years after the date of enactment.

Proposed Section	Title	Synopsis
1103	Tuition Assistance	This proposal amends 10 U.S.C 2007(a) to limit the payment of tuition for off-duty training or education to training or education that is likely to contribute to the member's professional development.
1104	Post-9/11 GI Bill Transferability	This proposal amends 38 U.S.C. 3319(b)(1) to allow members of the uniformed services to transfer unused education benefits to family members after the member has completed 10 years of service and agrees to serve for 2 more years. The prior provision required 6 years of service and agreement to serve for 4 more years.
1105	Sense of Congress Regarding Transferability of Unused Education Benefits to Family Members	This proposal expresses the sense of Congress that each Secretary concerned should exercise the discretionary authority to transfer unused education benefits to family members under section 3319(a)(2) of title 10, United States Code, in a manner that encourages retention of individuals in the uniformed services. The proposal also expresses the sense of Congress that the Secretary concerned be more selective in permitting such transferability.
1106	Report on Educational Attainment	This proposal amends 38 U.S.C. 3325(b)(1) to require the Secretary of Defense to include in the annual report on the programs under chapters 33 and 35 of title 38, United States Code, information on the highest level of education obtained by each individual who transfers an education benefit under section 3319 of such title.
1107	Report on Educational Levels of Service Members at Separation	This proposal adds a new subsection (d) to 10 U.S.C. 1142 that requires the Secretary concerned to collect information, at the time of separation, on the highest level of education obtained by individuals who transfer an education benefit under section 3319 of title 38, United States Code. The proposal also requires the Secretary concerned to prepare and submit annually to Congress a report that contains such information.
1108	Termination of BAH Payments for Dependents Using Transferred Education Benefits	This proposal amends 38 U.S.C 3319(h)(2) to terminate basic allowance for housing payments on or after July 1, 2017, for dependent spouses and children who use transferred education benefits under section 3319 of title 38, United States Code.
1109	Unemployment Insurance	This proposal amends 5 U.S.C 8525(b) to prohibit an individual from receiving unemployment compensation for any period for which the individual receives an educational assistance allowance under chapter 33 of title 38, United States Code.
1110	Reporting on Student Progress	This proposal adds a new section 3326 to chapter 33 of title 38, United States Code, that requires each educational institution receiving a payment on behalf of an individual who receives educational assistance under chapter 33 of title 38, United States Code, to report annually to the Secretary of Veterans Affairs information regarding the academic progress of the individual. The proposal also amends 38 U.S.C 3325(c) to require the Secretary of Veterans Affairs to include in the report submitted under 38 U.S.C. 3325(c) student academic progress information received under the new section 3326 of title 38, United States Code.
1201	Job Fair Participation Rates	This proposal amends section 136(d)(1) of the Workforce Investment Act of 1998 (29 U.S.C. 2871(d)(1)) to require information be reported on the number of job fairs attended by one-stop career center employees at which the employees had contact with a veteran and the number of veterans so contacted.
1202	Coordination with State Departments of Labor and Veterans Affairs	This proposal adds a new subsection (c) to section 4103 of title 38, United States Code, requiring each Director for Veterans' Employment and Training for a State to coordinate activities under chapter 41 of such title with the State Department of Labor and the State Department of Veterans Affairs.
1203	Veterans Unemployment Review and Report	This section requires the Secretary of Labor, in consultation with the Secretary of Defense and the Secretary of Veterans Affairs, to review matters related to the challenges faced by employers that seek to hire veterans, and matters related to information sharing among Federal departments and agencies serving veterans. The section also requires the Secretary of Labor, in consultation with the Secretary of Defense and the Secretary of Veterans Affairs, to prepare and submit to Congress a report making recommendations regarding the matters reviewed.
1204	Transition GPS Program Core Curriculum Review and Report	This section requires the Secretary of Defense, in consultation with the Secretary of Veterans Affairs and the Secretary of Labor, to conduct a review of the Transition GPS Program Core Curriculum in effect on the date of enactment. The section also requires the Secretary of Defense, in consultation with the Secretary of Veterans Affairs and the Secretary of Labor, to prepare and submit to Congress a report that makes recommendations regarding the Transition GPS Program Core Curriculum.

Proposed Section	Title	Synopsis
1301	Supplemental Nutrition Assistance Program Information	This proposal adds a new subparagraph (G) to section 11(e)(8) of the Food and Nutrition Act of 2008 (7 U.S.C. 2020(e)(8)) clarifying that the safeguards described in the State plan of operation under the Supplemental Nutrition Assistance Program shall not prevent the use of information obtained from applicant households by, or the disclosure of such information to, the Department of Defense for the purposes of determining the number of applicant households that contain one or more members of an active component or reserve component of the Armed Forces.
1302	Supplemental Subsistence Allowance	This proposal adds a new paragraph (4) to 37 U.S.C 402a(b) clarifying that only members of the Armed Forces serving outside the several States of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the United States Virgin Islands, or Guam may receive a supplemental subsistence allowance under section 402a of title 37, United States Code, after September 30, 2016.
1501	National Military Dependent Student Identifier	This proposal amends clause (xiii) of section 1111(b)(3)(C) of the Elementary and Secondary Education Act of 1965 (20 U.S.C. 6311(b)(3)(C)) to require that any State receiving a grant under part A of title I of such Act (20 U.S.C. 6311 et seq.) disaggregate assessment data by students whose parent or guardian is an active duty member of the Armed Forces. The proposal also requires that the assessment data be disaggregated further by branch of the Armed Forces in which such parent or guardian serves.



SEC. 101. THRIFT SAVINGS PLAN PARTICIPATION FOR MEMBERS OF THE UNIFORMED SERVICES.

(a) MODERNIZED RETIREMENT SYSTEM.—Section 8440e of title 5, United States Code, is amended by adding at the end the following:

"(f) MODERNIZED RETIREMENT SYSTEM.—

"(1) TSP MATCHING CONTRIBUTIONS.—Notwithstanding any other provision of law, the Secretary concerned shall make contributions to the Thrift Savings Fund, in accordance with the provisions of section 8432 of this title that do not conflict with this subsection, for the benefit of a member who—

"(A) first enters a uniformed service after the date of enactment of the _____ Act; or

"(B) makes the election described in section 1409(b)(4) of title 10.

"(2) MATCHING AMOUNT.—The amount contributed under this subsection by the Secretary concerned with respect to any contribution made by a member described in paragraph (1) for any pay period shall be equal to such portion of the total amount of the member's contribution as does not exceed 5 percent of such member's basic pay for such pay period.

"(3) TIMING AND DURATION OF MATCHING CONTRIBUTIONS.—The Secretary concerned shall make a contribution under this subsection on behalf of a member described in paragraph (1) for any pay period—

"(A) that begins on or after the day that is 60 days after the date of enactment of the _____ Act; and

"(B) covering a period of service that begins on the day after such member completes 2 years of service and ends on the day such member completes 20 years of service.

"(4) PROTECTIONS FOR SPOUSES AND FORMER SPOUSES.—Section 8435 shall apply to a member described in paragraph (1) in the same manner as such section is applied to an employee or Member under such section.

"(5) DEFINITION OF SECRETARY CONCERNED.—In this subsection the term 'Secretary concerned' has the meaning given the term in section 101 of title 37, United States Code.".

(b) AUTOMATIC ENROLLMENT IN TSP.—Paragraph (2) of section 8432(b) of title 5, United States Code, is amended—

(1) in clause (ii) of subparagraph (D)—

(A) by striking "(ii) Members" and inserting "(ii)(I) Except as provided in subclause (II), members"; and

(B) by adding at the end the following:

"(II) A member shall be an eligible individual for purposes of this paragraph, if the member—

"(aa) first enters a uniformed service after the date of enactment of the _____ Act; or

"(bb) makes the election described in section 1409(b)(4) of title 10."; and

(2) by adding at the end the following new subparagraphs:

"(F) Notwithstanding any other provision of this paragraph, a member who has declined automatic enrollment into the Thrift Savings Plan shall be automatically reenrolled, on January 1

of the year succeeding the year for which the determination is made, to make contributions under subsection (a) at the default percentage of basic pay.

"(G) In this paragraph the term 'member' has the meaning given the term in section 211 of title 37.".

(c) VESTING.—Paragraph (2) of section 8432(g) of title 5, United States Code, is amended—

(1) in subparagraph (A)(iii), by striking "or" after the semicolon;

(2) in subparagraph (B), by striking the period and inserting "; or"; and

(3) by adding at the end the following:

"(C) 2 years of service in the case of a member of the uniformed services.".

(d) THRIFT SAVINGS PLAN DEFAULT INVESTMENT FUND.—Paragraph (2) of section 8438(c) of title 5, United States Code (as amended by the Smart Savings Act; Public Law 113-255), is amended—

(1) in subparagraph (A), by striking "(A) Consistent with the requirements of subparagraph (B), if an" and inserting "If an"; and

(2) by striking subparagraph (B).

(e) CONFORMING REPEALERS.—

(1) TITLE 5, UNITED STATES CODE.—Subsection (e) of section 8440e of title 5, United States Code, is repealed.

(2) TITLE 37, UNITED STATES CODE.—Subsection (d) of section 211 of title 37, United States Code, is repealed.

SEC. 102. MODERNIZED RETIREMENT SYSTEM FOR MEMBERS AND RETIREES.

(a) MODERNIZED RETIREMENT SYSTEM.—Subsection (b) of section 1409 of title 10, United States Code, is amended by adding at the end the following new paragraph:

"(4) MODERNIZED RETIREMENT SYSTEM.—

"(A) REDUCED MULTIPLIER FOR MEMBERS RECEIVING TSP MATCHING CONTRIBUTIONS.—Notwithstanding paragraphs (1), (2), and (3), in the case of a member who first enters a uniformed service after the date of enactment of the _____ Act, or a member who makes the election described in subparagraph (B)—

"(i) subparagraph (A) of paragraph (1) shall be applied by substituting '2.0' for '2 ½";

"(ii) clause (i) of paragraph (3)(B) shall be applied by substituting '60' for '75'; and

"(iii) subclause (I) of paragraph (3)(B)(ii) shall be applied by substituting '2.0 ' for '2 ½'.

"(B) ELECTION TO PARTICIPATE IN THE MODERNIZED RETIREMENT SYSTEM.—

"(i) DEFINITION OF RETIREE.—In this subparagraph the term 'retiree' means a member or former member of a uniformed service who is entitled to retired or retainer pay, or equivalent pay.

"(ii) ELECTION.—A member of a uniformed service serving on the date of enactment of the _____ Act or a retiree may elect—

"(I) to receive Thrift Savings Plan (TSP) matching contributions pursuant to section 8440e(f) of title 5;

"(II) to accept the reduced multipliers described in subparagraph (A) for purposes of calculating such member's retired pay; and

"(III) to be eligible for lump sum payments under section 1415 of this title.

"(iii) ELECTION PERIOD.—

"(I) IN GENERAL.—Except as provided in subclauses (II) and (III), a member of a uniformed service or a retiree may make the election described in clause (ii) during the period that begins on the day that is 180 days after the date of enactment of the _____ Act and ends on the day that is 360 days after such date of enactment.

"(II) HARDSHIP EXTENSION.—The Secretary concerned may extend the election period described in subclause (I) for a member or retiree who experiences a hardship as determined by the Secretary concerned.

"(III) SPECIAL RULE FOR MEMBERS WHO EXPERIENCE A BREAK IN SERVICE.—A member of a uniformed service or a retiree returning to service after a break in service shall make the election described in clause (ii) on the member's or retiree's reentry date.

"(C) REGULATIONS.—The Secretary concerned shall promulgate regulations implementing this paragraph.".

(b) CONFORMING AMENDMENTS TO OTHER RETIREMENT AUTHORITIES.—

(1) TITLE 10, UNITED STATES CODE.—

(A) COMPUTATION OF RETIRED PAY.—The table in section 1401(a) of title 10, United States Code, is amended—

(i) in column 2 of formula number 1—

(I) in paragraph (1), by striking "2 ½ % of years of service credited to him under section 1208" and inserting "the retired pay multiplier determined for the member under section 1409 of this title"; and

(II) in paragraph (2), by striking ", not to exceed 75%,"; and

(ii) in column 2 of formula number 2—

(I) in paragraph (1), by striking "2 ½ % of years of service credited to him under section 1208" and inserting "the retired pay multiplier determined for the member under section 1409 of this title"; and

(II) in paragraph (2), by striking ", not to exceed 75%,".

(B) CLARIFICATION REGARDING THE MODERNIZED RETIREMENT SYSTEM.—Subsection (b) of section 1401a of title 10, United States Code, is amended—

(i) by redesignating paragraph (5) as paragraph (6); and

(ii) by inserting after paragraph (4) the following new paragraph:

"(5) CLARIFICATION REGARDING THE MODERNIZED RETIREMENT SYSTEM.—Notwithstanding paragraph (3), if a member or former member makes the election in accordance with section 1409(b)(4) of this title, then the Secretary shall increase the retired pay of such member in accordance with paragraph (2).".

(2) THE NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION COMMISSIONED OFFICER CORPS ACT OF 2002.—Paragraph (2) of section 245(a) of the National Oceanic and Atmospheric Administration Commissioned Officer Corps Act of 2002 (33 U.S.C. 3045(a)) is amended to read as follows:

"(2) the retired pay multiplier determined under section 1409 of such title for the number of years of service that may be credited to the officer under section 1405 of such title as if the officer's service were service as a member of the Armed Forces.".

(3) TITLE 37, UNITED STATES CODE.—

(A) 15-YEAR CAREER STATUS BONUS REPAYMENT.—Subsection (f) of section 354 of title 37, United States Code, is amended—

(i) by striking "If a" and inserting "(1) If a"; and

(ii) by adding at the end the following new paragraph:

"(2) If a person who is paid a bonus under this section subsequently makes an election under section 1409(b)(4) of title 10, then the person shall repay any bonus payments received under this section in the same manner as repayments are made under section 373 of this title.".

(B) SUNSET AND CONTINUATION OF PAYMENTS.—Section 354 of title 37, United States Code is further amended by adding after subsection (f)(2) (as added by subparagraph (A)) the following new subsection:

"(g) SUNSET AND CONTINUATION OF PAYMENTS.—

"(1) SUNSET.—A Secretary concerned shall not pay a new bonus under this section after the date of enactment of the _____ Act.

"(2) CONTINUATION OF PAYMENTS .—Subject to subsection (f)(2), a Secretary concerned may continue to make payments for bonuses that were awarded under this section on or before the date of enactment of the _____ Act. ".

(4) PUBLIC HEALTH SERVICE ACT.—Paragraph (4) of section 211(a) of the Public Health Service Act (42 U.S.C. 212) is amended—

(A) in the matter preceding subparagraph (A), by striking "at the rate of 2 ½ per centum of the basic pay of the highest grade held by him as such officer" and inserting "calculated by multiplying the retired pay base determined under section 1406 of title 10 by the retired pay multiplier determined under section 1409 of such title for the numbers of years of service credited to the officer under this paragraph"; and

(B) in the matter following subparagraph (B)(iii)—

(i) in subparagraph (C), by striking "such pay, and" and inserting "such pay,";

(ii) in subparagraph (D), by striking "such basic pay." and inserting "such basic pay, and (E) in the case of any officer who makes the election described in section 1409(b)(4) of title 10, United States Code, subparagraph (C) shall be applied by substituting '40 per centum" for '50

per centum' each place the term appears and subparagraph (D) shall be applied by substituting '60 per centum' for '75 per centum'.".

SEC. 103. LUMP SUM PAYMENTS.

(a) LUMP SUM PAYMENT ELECTION.—Chapter 71 of title 10, United States Code, is amended by adding at the end the following:

"§ 1415. Lump Sum Payment Election

"(a) DEFINITIONS.—In this section:

"(1) COVERED RETIRED PAY.—The term 'covered retired pay' means retired pay under—

"(A) this title;

"(B) title 14;

"(C) the National Oceanic and Atmospheric Administration Commissioned Officer Corps Act of 2002 (33 U.S.C. 3001 et seq.); or

"(D) the Public Health Service Act (42 U.S.C. 201 et seq.).

"(2) ELIGIBLE PERSON.—The term 'eligible person' means a person who—

"(A)(i) first enters a uniformed service after the date of enactment of the _____ Act; or

"(ii) makes the election described in section 1409(b)(4) of this title; and

"(B) does not retire or separate under chapter 61 of this title.

"(3) RETIREMENT AGE.—The term 'retirement age' has the meaning given the term in section 216(l) of the Social Security Act (42 U.S.C. 416(l)).

"(b) LUMP SUM PAYMENT ELECTION.—

"(1) IN GENERAL.—Notwithstanding any other provision of law, an eligible person entitled to covered retired pay may elect to receive a lump sum payment of—

"(A) in the case of an eligible person not described in subparagraph (B), (C) or (D), the amount of the covered retired pay that the eligible person is entitled to receive for the period beginning on the date of retirement and ending when the eligible person attains the eligible person's retirement age;

"(B) in the case of an eligible person who is a member or former member of a uniformed service and is entitled to retired or retainer pay, or equivalent pay, other than an eligible person described in subparagraph (D), the amount of the covered retired pay that the eligible person is entitled to receive for the period beginning on the date the eligible person makes the election under section 1409(b)(4) of this title and ending when the eligible person attains the eligible person's retirement age;

"(C) in the case of an eligible person who is a member of the reserve component and under the age of 60, the amount of the covered retired pay that the eligible person is entitled to receive for the period beginning on the date the eligible person turns 60 and ending on the date the eligible person attains the eligible person's retirement age;

"(D) in the case of an eligible person who is a member of the reserve component and 60 years old or older, the amount of the covered retired pay that the eligible person is entitled to receive for the period beginning on the date the eligible person makes the election under section 1409(b)(4) of this title and ending when the eligible person attains the eligible person's retirement age; or

"(E) in the case of an eligible person described in subparagraph (A), (B), (C) or (D), 50 percent of the amount determined under subparagraph (A), (B), (C) or (D), respectively.

"(2) 50 PERCENT OPTION.—An eligible person described in subparagraph (A), (B), (C) or (D) of paragraph (1) who makes the election described in paragraph (1)(E) shall be entitled to receive, for the period described in such subparagraph (A), (B), (C) or (D), respectively, 50 percent of the monthly covered retired pay the eligible person is entitled to receive under the provisions of law described in subsection (a)(1).

"(3) TIMING OF ELECTION.—An eligible person described in subparagraph (A) or (C) of paragraph (1) shall make the election under this subsection not later than 90 days before the eligible person receives covered retired pay.

"(4) PAYMENTS.—

"(A) SINGLE PAYMENT OR COMBINATION OF PAYMENTS.—An eligible person may elect to receive a lump sum payment under this subsection in a single payment or in a combination of payments.

"(B) TIMING OF PAYMENTS.—Notwithstanding any other provision of law, an eligible person who makes an election under paragraph (1) shall receive the lump sum payment not later than 60 days after the date the eligible person is entitled to receive covered retired pay.

"(e) RESUMPTION OF MONTHLY ANNUITY.—

"(1) GENERAL RULE.—Subject to paragraph (2), an eligible person who makes an election described in subsection (b) shall be entitled to receive the eligible person's

monthly covered retired pay calculated in accordance with paragraph (2) after the eligible person attains the eligible person's retirement age.

"(2) RESTORATION OF FULL RETIREMENT AMOUNT AT RETIREMENT AGE.—The retired pay of an eligible person who makes an election described in subsection (a) shall be recomputed, effective on the first day of the first month beginning after the person attains the eligible person's retirement age, so as to be an amount equal to the amount of covered retired pay to which the eligible person would be entitled on that date if the annual increases, in the retired pay of the eligible person made to reflect changes in the Consumer Price Index, had been made in accordance with section 1401a of this title.

"(d) REGULATIONS.—The Secretary shall promulgate regulations—

"(1) to carry out the provisions of this section; and

"(2) establishing the actuarial procedures that shall be used to calculate the amount of the lump sum payments made under this section.".

(b) CLERICAL AMENDMENT.—The table of sections at the beginning of such chapter is amended by adding at the end the following:

"1415. Lump sum payment election.".

(c) PAYMENTS FROM THE DEPARTMENT OF DEFENSE MILITARY RETIREMENT FUND.—Paragraph (1) of section 1463 of title 10, United States Code, is amended by striking "or 1414" and inserting ", 1414 or 1415".

SEC. 104. AUTHORITY FOR RETIREMENT FLEXIBILITY.

(a) AUTHORITY FOR RETIREMENT FLEXIBILITY.—Chapter 71 of title 10, United States Code, is further amended by adding at the end the following:

"§ 1416. Authority for Retirement Flexibility

"(a) AUTHORITY.—Notwithstanding any other provision of law, the Secretary may modify the years of service required for an eligible member to retire, to greater than or less than 20 years of service, in order to facilitate management actions that shape the personnel profile or correct manpower shortages within an occupational specialty or other grouping of members of the armed forces.

"(b) DEFINITION OF ELIGIBLE MEMBER.—In this section the term 'eligible member' means a member of the armed services working in an occupational specialty or other grouping designated by the Secretary as in need of a management action described in subsection (a).

"(c) NOTICE.—

"(1) NOTICE REQUIRED.—The Secretary shall provide Congress notice of any proposed modification under subsection (a).

"(2) LIMITATION.—The Secretary shall not implement a proposed modification under subsection (a) until 1 year after the day Congress was provided the notification under paragraph (1).

"(d) APPLICABILITY.—The Secretary shall only modify the required years of service under subsection (a) for an eligible member who first enters a uniformed service on or after the date of the expiration of the 1 year period described in subsection (c)(2) that is applicable to the occupational specialty or other grouping in which the eligible member works.".

(b) CLERICAL AMENDMENT.—The table of sections at the beginning of such chapter is further amended by adding after the item relating to section 1415 (as added by section 103(b)) the following:

"1416. Authority for retirement flexibility.".

SEC. 105. TREATMENT OF THE DEPARTMENT OF DEFENSE MILITARY RETIREMENT FUND AS A QUALIFIED TRUST FUND.

(a) IN GENERAL.—Chapter 74 of title 10, United States Code, is amended by adding at the end the following new section:

"§ 1468. Treatment as a qualified trust fund

"For purposes of the Internal Revenue Code of 1986 (26 U.S.C. 1 et seq.)—

"(1) the Fund shall be treated as a trust described in section 401(a) of such Code (26 U.S.C 401(a)) which is exempt from taxation under section 501(a) of such Code (26 U.S.C 501(a)); and

"(2) any contribution to, or distribution from, the Fund shall be treated in the same manner as contributions to or distributions from such a trust.".

(b) CLERICAL AMENDMENT.—The table of sections at the beginning of such chapter is amended by adding at the end the following:

"1468. Treatment as a qualified trust fund.".

SEC. 106. MODERNIZED RETIREMENT SYSTEM FOR RESERVE COMPONENT MEMBERS.

Section 12739 of title 10, United States Code, is amended by adding at the end the following:

"(f) MODERNIZED RETIREMENT SYSTEM.—

"(1) REDUCED MULTIPLIER FOR PERSONS RECEIVING TSP MATCHING CONTRIBUTIONS.—In the case of a person who first performs reserve component service after the date of enactment of the _____ Act, or a person who makes the election described in paragraph (2)—

"(A) paragraph (2) of subsection (a) shall be applied by substituting '2.0' for '2 ½';

"(B) subparagraph (A) of subsection (c)(2) shall be applied by substituting '60' for '75'; and

"(C) clause (ii) of subsection (c)(2)(B) shall be applied by substituting '2.0' for '2 ½'.

"(2) ELECTION TO PARTICIPATE IN THE MODERNIZED RETIREMENT SYSTEM.—

"(A) DEFINITION OF RETIREE.—In this paragraph the term 'retiree' means a member or former member of a uniformed service who is entitled to retired or retainer pay, or equivalent pay, under this chapter.

"(B) ELECTION.—A person performing reserve component service on the date of enactment of the _____ Act or a retiree may elect—

"(i) to receive Thrift Savings Plan (TSP) matching contributions pursuant to section 8440e(f) of title 5;

"(ii) to accept the reduced multipliers described in paragraph (1) for purposes of calculating such member's retired pay; and

"(iii) to be eligible for lump sum payments under section 1415 of this title.

"(C) ELECTION PERIOD.—

"(i) IN GENERAL.—Except as provided in clauses (ii) and (iii), a person performing reserve component service or a retiree may make the election described in subparagraph (B) during the period that begins on the

day that is 180 days after the date of enactment of the _____ Act and ends on the day that is 360 days after such date of enactment.

"(ii) HARDSHIP EXTENSION.—The Secretary concerned may extend the election period described in clause (i) for a person or retiree who experiences a hardship as determined by the Secretary concerned.

"(iii) SPECIAL RULE FOR PERSONS WHO EXPERIENCE A BREAK IN SERVICE.—A person returning to reserve component service after a break in reserve component service or a retiree returning to reserve component service shall make the election described in subparagraph (B) on the person's or retiree's reentry date.

"(3) REGULATIONS.—The Secretary concerned shall promulgate regulations implementing this subsection.".

SEC. 107. CONTINUATION PAY.

(a) IN GENERAL.—Subchapter II of chapter 5 of title 37, United States Code, is amended by adding at the end the following new sections:

"§ 356. Mandatory continuation pay for members with 12 years of service

"(a) CONTINUATION PAY.—The Secretary shall make a continuation payment to each member under the jurisdiction of the Secretary who—

"(1) completes 12 years of service; and

"(2) enters into an agreement with the Secretary to serve for an additional 4 years of obligated service.

"(b) DEFINITIONS.—In this section:

"(1) MEMBER.—The term 'member' means a member of the uniformed services.

"(2) SECRETARY.—The term 'Secretary' means—

"(A) the Secretary concerned in the case of a member of the armed forces;

"(B) the Secretary of Health and Human Services in the case of a member of the commissioned corps of the Public Health Service; and

"(C) the Secretary of Commerce in the case of a member of the commissioned corps of the National Oceanic and Atmospheric Administration.

"(c) AMOUNT.—A member shall receive continuation pay under this section in an amount that is equal to—

"(1) in the case of a member of the active component, 2.5 times the member's basic pay at 12 years of service; and

"(2) in the case of a member of the reserve component, 0.5 times the member's basic pay at 12 years of service calculated as if the member were in the active component.

"(d) TIMING.—The Secretary shall provide continuation pay under this section to a member when the member completes 12 years of service.

"(e) MEMBER PAYMENT ELECTION.—A member may elect to receive continuation pay under this section in a lump sum or in a series of not more than 4 payments.

"(f) RELATIONSHIP TO OTHER PAY AND ALLOWANCES.—Continuation pay under this section is in addition to any other pay or allowance to which the member is entitled.

"(g) REPAYMENT.—A member who receives continuation pay under this section and fails to complete the obligated service required under subsection (a)(2) shall be subject to the repayment provisions of section 373 of this title.

"(h) REGULATIONS.—The Secretary shall prescribe regulations to carry out this section.

"§ 357. Discretionary continuation pay for members with 12 years of service

"(a) CONTINUATION PAY.—The Secretary may make a continuation payment to each member under the jurisdiction of the Secretary who—

"(1) completes 12 years of service; and

"(2) enters into an agreement with the Secretary to serve for an additional 4 years of obligated service.

"(b) DEFINITIONS.—In this section:

"(1) MEMBER.—The term 'member' means a member of the uniformed services.

"(2) SECRETARY.—The term 'Secretary' means—

"(A) the Secretary concerned in the case of a member of the armed forces;

"(B) the Secretary of Health and Human Services in the case of a member of the commissioned corps of the Public Health Service; and

"(C) the Secretary of Commerce in the case of a member of the commissioned corps of the National Oceanic and Atmospheric Administration.

"(c) AMOUNT.—A member shall receive continuation pay under this section in an amount determined by the Secretary.

"(d) TIMING.—If the Secretary provides continuation pay under this section to a member, then the continuation pay shall be provided when the member completes 12 years of service.

"(d) MEMBER PAYMENT ELECTION.—A member may elect to receive continuation pay under this section in a lump sum or in a series of not more than 4 payments.

"(e) RELATIONSHIP TO OTHER PAY AND ALLOWANCES.—Continuation pay under this section is in addition to any other pay or allowance to which the member is entitled.

"(f) REPAYMENT.—A member who receives continuation pay under this section and fails to complete the obligated service required under subsection (a)(2) shall be subject to the repayment provisions of section 373 of this title.

"(g) REGULATIONS.—The Secretary shall prescribe regulations to carry out this section.".

(b) CLERICAL AMENDMENT.—The table of sections at the beginning of chapter 5 of title 37, United States Code, is amended by adding after the item relating to section 355 the following:

"§ 356. Mandatory continuation pay for members with 12 years of service.

"§ 357. Discretionary continuation pay for members with 12 years of service.".

SEC. 108. LUMP SUM REPAYMENTS.

Section 5304 of title 38, United States Code, is amended by adding at the end the following new subsection:

"(d) TREATMENT OF LUMP SUM PAYMENTS UNDER SECTION 1415 OF TITLE 10.—

"(1) REPAYMENT.—Notwithstanding any other provision of law, the amount of pension and compensation benefits payable to a person under this title shall be reduced by the amount of any lump sum payment made to such person under section 1415 of title 10.

"(2) COLLECTION.—The Secretary shall collect the reduction under paragraph (1) from any funds made available to the person from the Department of Veterans' Affairs, including pension and compensation payments under this title, before any pension and compensation payments under this title may be paid to the person.".

SEC. 201. INCREASED SERVICE MEMBER CHOICE IN SURVIVOR BENEFIT PLAN.

(a) REDUCTION ELECTION. — Section 1452(a) of title 10, United States Code, is amended—

(1) in subparagraph (A) of paragraph (1)—

(A) by amending clause (iii) to read as follows:

"(iii) NEW ENTRANTS.—

"(I) NEW ENTRANTS AFTER ENACTMENT OF FLAT RATE REDUCTION.—In the case of a person who first becomes a member of a uniformed service on or after March 1, 1990, and who is entitled to retired pay under a provision of law other than chapter 61 or chapter 1223 of this title, the reduction shall be in an amount equal to 6½ percent of the base amount.

"(II) SBP SELECT OPTION.—

"(aa) IN GENERAL.— Notwithstanding subclause (I), in the case of a person who separates from a uniform service on or after March 1, 2015, and who is entitled to retired pay under a provision of law other than chapter 61 or chapter 1223 of this title, the reduction, at the election of such person, shall be in an amount equal to—

"(AA) 6½ percent of the base amount; or

"(BB) the subsidy percentage, determined in accordance with item (cc), of the base amount.

"(bb) NO OFFSET.— In the case of a person who makes the percentage reduction election under item (aa)(BB), the amount of any annuity paid to a surviving spouse or former spouse shall be calculated without applying the offset described in section 1450(c).

"(cc) SUBSIDY PERCENTAGE.—The Secretary of Defense shall determine the subsidy percentage for a fiscal year by calculating a percentage on the basis of the difference between—

"(AA) the total cost of the survivor benefit program under this subchapter for the preceding fiscal year; minus

"(BB) the total amount of premiums collected under this section for the preceding fiscal year."; and

(B) by adding at the end the following new clause:

"(v) SBP OPTION.—Notwithstanding clause (i), a person who is entitled to retired pay under chapter 61 or chapter 1223 of this title may elect a reduction in an amount equal to the subsidy percentage, determined in accordance with clause (iii)(II)(cc), of the base amount. Any annuity paid to a surviving spouse or former spouse under this clause shall be calculated without applying the offset described in section 1450(c)."; and

(2) in paragraph (2), by adding at the end the following new sentence: "Such regulations shall provide a participant in the Plan with an election for a reduction calculated without applying the offset described in section 1450(c).".

(b) CHILD ONLY ANNUITIES. —Paragraph (1) of section 1452(b) of title 10, United States Code, is amended by adding at the end the following new sentence: "Such regulations shall provide a participant in the Plan with an election for a reduction calculated without applying the offset described in section 1450(c).".

(c) REGULATIONS.—Section 1452 of title 10, United States Code, is amended further by adding at the end the following new subsection:

"(k) LUMP SUM PAYMENT REGULATIONS.—Notwithstanding any other provision of this section, the Secretary of Defense shall promulgate regulations establishing the amount of the premium that will be paid under this section by a participant in the Plan who elects to receive a lump sum payment under section 1415 of this title.".

(d) PROVISION OF A DETAILED SBP ANALYSIS AT RETIREMENT.—Section 1452 of title 10, United States Code, is amended further by adding after subsection (k) (as added by subsection (c)) the following new subsection:

"(l) PROVISION OF A DETAILED SBP ANALYSIS AT RETIREMENT.—The Secretary concerned shall provide each retiring member of the uniformed services and the spouse of the member an individualized, detailed analysis of the costs and benefits to the member and spouse of the Plan option selected by the member, including providing an analysis of the costs and benefits of not participating in the Plan.".

SEC. 301. IMPROVING FINANCIAL LITERACY AND PREPAREDNESS.

(a) IN GENERAL.—Section 992 of title 10, United States Code, is amended—

(1) in the section heading, by striking "CONSUMER EDUCATION" and inserting "FINANCIAL LITERACY TRAINING";

(2) in subsection (a)—

(A) in the subsection heading, by striking "CONSUMER EDUCATION" and inserting "FINANCIAL LITERACY TRAINING";

(B) in the matter preceding subparagraph (A) of paragraph (1), by striking "education" and inserting "financial literacy training";

(C) in paragraph (2)—

(i) in the matter preceding subparagraph (A), by striking "as";

(ii) in subparagraph (A)—

(I) by inserting "as" before "a component";

(II) by striking "orientation"; and

(III) by striking "and" after the semicolon;

(iii) by redesignating subparagraph (B) as subparagraph (J); and

(iv) by inserting after subparagraph (A) the following new subparagraphs:

"(B) upon arrival at the first duty station;

"(C) upon arrival at each duty station following the first duty station in the case of each member in pay grade E–4 or below or in pay grade O–3 or below;

"(D) on the date of promotion, in the case of each member in pay grade E–5 or below or in pay grade O–4 or below;

"(E) when the member vests in the Thrift Savings Plan (TSP);

"(F) at each major life event during the member's service, such as—

"(i) marriage;

"(ii) divorce;

"(iii) birth of first child; or

"(iv) disabling sickness or condition;

"(G) during leadership training;

"(H) during pre-deployment training and during post-deployment training;

"(I) at transition points in military service, such as—

"(i) transition from an active component to a reserve component;

"(ii) separation from service; or

"(iii) retirement; and"; and

(v) in subparagraph (J) (as redesignated by clause (iii)), by inserting "as" before "a component";

(D) in paragraph (3), by striking "(2)(B)" and inserting "(2)(J)"; and

(E) by adding at the end the following new paragraph:

"(4) The Secretary concerned shall promulgate and implement regulations setting forth any additional events and circumstances (other than those described in paragraph (2)) for which the Secretary determines that training under this section shall be required.";

(3) by redesignating subsection (d) as subsection (e);

(4) by inserting after subsection (c) the following new subsection:

"(d) FINANCIAL LITERACY AND PREPAREDNESS SURVEY.—(1) The Director of the Defense Manpower Data Center shall annually include, in the status of forces survey, a survey of the status of the financial literacy and preparedness of members of the armed forces.

"(2) The results of the annual financial literacy and preparedness survey—

"(A) shall be used by each of the Secretaries concerned as a benchmark to evaluate and update training provided under this section; and

"(B) shall be reported annually to the Committee on Armed Services of the Senate and the Committee on Armed Services of the House of Representatives."; and

(5) by adding at the end of subsection (e) (as redesignated by paragraph (3)) the following new paragraph:

"(4) Health insurance, budget management, Thrift Savings Plan (TSP), retirement lump sum payments (including rollover options and tax consequences), and Survivor Benefit Plan (SBP) .".

(b) CLERICAL AMENDMENT.—The table of contents at the beginning of chapter 50 of title 10, United States Code, is amended by striking the item related to section 992 and inserting the following:

"992. Financial Literacy Training: Financial Services.".

SEC. 302. FINANCIAL LITERACY TRAINING FOR MEMBERS OF THE UNIFORMED SERVICES.

(a) IN GENERAL.—The Secretary concerned shall provide the financial literacy training under section 992 of title 10, United States Code, for the financial services described in paragraph (4) of section 992(e) of such title (as added by section 301(a)(5)), to members of the uniformed services not later than 6 months after the date of enactment of the _____ Act.

(b) DEFINITIONS.—In this section:

(1) SECRETARY CONCERNED.—The term 'Secretary concerned' has the meaning given the term in section 101 of title 10, United States Code.

(2) UNIFORMED SERVICES.—The term "uniformed services" has the meaning given the term in section 101 of title 10, United States Code.

SEC. 303. SENSE OF CONGRESS REGARDING FINANCIAL LITERACY AND PREPAREDNESS.

It is the sense of Congress that—

(1) the Secretary of Defense should strengthen arrangements with other Federal departments and agencies, as well as with nonprofit organizations, in order to improve the financial literacy and preparedness of members of the Armed Forces; and

(2) the Chairman of the Joint Chiefs of Staff and the Service Chiefs should provide support for the financial literacy and preparedness training carried out under section 992, of title 10, United States Code.

SEC. 401. CONSOLIDATION OF AUTHORITIES TO ORDER RESERVE COMPONENT MEMBERS TO PERFORM DUTY.

(a) ADMINISTRATION OF RESERVE DUTY.—Chapter 1209 of title 10, United States Code, is amended—

(1) by inserting before section 12301 of such chapter the following subchapter heading:

"SUBCHAPTER I—ADMINISTRATION OF RESERVE DUTY";

(2) by repealing sections 12301, 12302, 12303, 12304, 12310, 12319 and 12322;

(3) in each of subsections (a) and (b) of section 12305, by striking "section 12301, 12302, or 12304 of this title" and inserting "section 12341 of this title for a purpose specified under subsections (a) through (e) of section 12351(a) of such title";

(4) in section 12306—

(A) in subsection (a), by striking "section 12301" and inserting "section 12351"; and

(B) in subsection (b)—

(i) in paragraph (1), by striking "section12301(a) of this title" and inserting "section 12341 of this title for the purpose specified in section 12351(a) of this title"; and

(ii) in paragraph (2), by striking "section 12301(a)" and inserting "section 12351(a)";

(5) in section 12307, by striking "12301(a)" and inserting "12351(a)";

(6) in section 12318—

(A) in subsection (a), by striking "section 12302 or 12304 of this title" and inserting "section 12341 of this title for a purpose specified under subsection (b) or (c) of section 12351"; and

(B) in subsection (b)—

(i) by striking "section 12310" and inserting "section 12353(c)"; and

(ii) by striking "section 12302 or 12304" and inserting "subsection (b) or (c) of section 12351"; and

(7) by adding the following new section after section 12323:

"§ 12324. Policies and procedures

"(a) IN GENERAL.—The Secretary of Defense and the Secretary of Homeland Security shall prescribe such policies and procedures for the armed forces under their respective jurisdictions as the Secretary concerned considers necessary to carry out this subchapter.

"(b) REPORT TO CONGRESS.—When members of the Ready Reserve are ordered to active duty pursuant to section 12351(b) of this title, the Secretary of Defense shall report on those policies and procedures prescribed under subsection (a) at least once a year to the Committee on Armed Services of the Senate and the Committee on Armed Services of the House of Representatives.".

(b) AUTHORITY FOR RESERVE DUTY.—Chapter 1209 of title 10, United States Code, is amended further by adding after section 12324 (as added by subsection (a)(7)) the following new subchapter:

"SUBCHAPTER II—RESERVE DUTY AUTHORITIES

"§ 12341. Active duty

"(a) AUTHORITY TO ORDER A MEMBER TO PERFORM ACTIVE DUTY.—At any time, the Secretary concerned may order a member of a reserve component under the Secretary's jurisdiction to active duty, or retain the member on active duty, subject to the purpose and limitations described in subsections (b) and (c).

"(b) PURPOSE AND LIMITATIONS.—The purposes and limitations referred to in subsection (a) are as follows:

"(1) PURPOSE OF ORDER.—To account for manpower utilization and expenditure of appropriations, each order shall cite the purpose of the order to active duty as provided under subchapter III of this chapter.

"(2) LIMITATIONS.—A member of a reserve component shall not be ordered to active duty or retained on active duty beyond the limitations and restrictions specified in the purpose of the order to active duty.

"(c) CONTINUOUS PERIOD OF DUTY.—

"(1) IN GENERAL.—When the purpose for the member to serve on active duty changes, the order to active duty shall be amended to cite the new purpose and applicable funding code, but the member shall remain on the same order to active duty.

"(2) CONTINUOUS FEDERAL SERVICE.—If a member is released from active duty and subsequently ordered to active duty or full-time National Guard duty with a break in service of 24 hours or fewer, the period of service shall be treated as continuous federal service for the purposes of pay and benefits, unless otherwise specified in law.

"§ 12342. Call to federal service

"(a) AUTHORITY TO CALL A MEMBER INTO FEDERAL SERVICE.—

"(1) IN GENERAL.—The President may call into Federal service the militia of any State, and use such of the armed forces, as the President considers necessary for the purposes specified in chapter 15 of this title.

"(2) STATE REQUEST REQUIRED.—A call into federal service for the purposes specified in section 331 of this title shall only be made upon the request of the legislature of a State or of the Governor of a State if the legislature cannot be convened.

"(b) NATIONAL GUARD IN FEDERAL SERVICE.—The President may call into Federal service members and units of the National Guard of any State in such numbers as the President considers necessary for the purposes specified in section 12406 of this title.

"§ 12343. Inactive duty

"(a) AUTHORITY TO ORDER A MEMBER TO PERFORM INACTIVE DUTY.— Under regulations prescribed by the Secretary of Defense, or the Secretary of Homeland Security in the case of the Coast Guard when the Coast Guard is not operating as a service in the Navy, the Secretary concerned may, at any time, order a member of a reserve component under the Secretary's jurisdiction to perform inactive duty, subject to the purpose and limitations described in subsection (b).

"(b) PURPOSE AND LIMITATIONS.—The purpose and limitations referred to in subsection (a) are as follows:

"(1) PURPOSE.—To account for manpower utilization and expenditure of appropriations, the Secretary concerned shall document the purpose for inactive duty.

"(2) HOSTILE FIRE OR IMMINENT DANGER AREA.—Inactive duty shall not be performed in designated hostile fire or imminent danger area.

"(3) DURATION.—Each period of inactive duty shall be for duration of at least two hours.

"(4) COMPENSATION.—Compensation under section 206 of title 37, United States Code, and service credit under section 12732(a)(2)(E) of this title, shall not exceed two periods of inactive duty in a calendar day.".

(c) PURPOSE OF DUTY.—Chapter 1209 of title 10, United States Code, is further amended by adding after section 12343 (as added by subsection (b)) the following new subchapter:

"SUBCHAPTER III.—PURPOSE OF RESERVE DUTY

"§ 12351. Reserve component: required duty

"(a) MOBILIZATION OF THE RESERVE COMPONENTS.—

"(1) IN GENERAL.—In time of war or of national emergency declared by Congress, or when otherwise authorized by law, an authority designated by the Secretary concerned may, without the consent of the persons affected, order any unit, and any member not assigned to a unit organized to serve as a unit, of a reserve component under the jurisdiction of that Secretary to active duty under section 12341 of this title for the duration of the war or emergency and for six months thereafter. However a member on an inactive status list or in a retired status may not be ordered to active duty under this subsection unless the Secretary concerned, with the approval of the Secretary of Defense in the case of the Secretary of a military department, determines that there are not enough qualified Reserves in an active status or in the inactive National Guard in the required category who are readily available.

"(2) EXPANSIONS.—So far as practicable, during any expansion of the active armed forces that requires that units and members of the reserve components be ordered

to active duty as provided in paragraph (1), members of units organized and trained to serve as units who are ordered to that duty without their consent shall be so ordered with their units. However, members of those units may be reassigned after being so ordered to active duty.

"(3) PERIOD OF TIME.—The period of time allowed between the date when a Reserve ordered to active duty pursuant to paragraph (1) is alerted for that duty and the date when the Reserve is required to enter upon that duty shall be determined by the Secretary concerned based upon military requirements at that time.

"(b) READY RESERVE MOBILIZATION.—In time of national emergency declared by the President after January 1, 1953, or when otherwise authorized by law, an authority designated by the Secretary concerned may, without the consent of the persons concerned, order any unit, and any member not assigned to a unit organized to serve as a unit, in the Ready Reserve under the jurisdiction of that Secretary to active duty under section 12341 of this title for not more than 24 consecutive months. Not more than 1,000,000 members of the Ready Reserve may be on active duty, without their consent, under this section at any one time.

"(c) CALL-UP OF THE SELECTED RESERVE AND CERTAIN INDIVIDUAL READY RESERVE MEMBERS; OTHER THAN DURING WAR OR NATIONAL EMERGENCY.—

"(1) IN GENERAL.—Notwithstanding the provisions of subsection (b) or any other provision of law, when the President determines that it is necessary to augment the active forces for any operational mission or that it is necessary to provide assistance referred to in paragraph (2), the President may authorize the Secretary of Defense, and the Secretary of Homeland Security with respect to the Coast Guard when the Coast Guard is not operating as a service in the Navy, without the consent of the members concerned, to

order any unit, and any member not assigned to a unit organized to serve as a unit, of the Selected Reserve (as described in section 10143(a) of this title, or any member in the Individual Ready Reserve mobilization category and designated as essential under regulations prescribed by the Secretary concerned, under their respective jurisdictions, to active duty under section 12341 of this title for not more than 365 days.

"(2) EMERGENCIES.—The augmentation under paragraph (1) includes providing assistance in responding to an emergency involving—

"(A) a use or threatened use of a weapon of mass destruction; or

"(B) a terrorist attack or threatened terrorist attack in the United States that results, or could result, in significant loss of life or property.

"(3) FUNCTION LIMITATION.—No unit or member of a reserve component may be ordered to active duty pursuant to this subsection to perform any of the functions authorized by chapter 15 of this title or section 12406 of this title or, except as provided in paragraph (2), to provide assistance to the Federal Government or a State in time of a serious natural or manmade disaster, accident, or catastrophe.

"(4) NUMERICAL LIMITATION.—Not more than 200,000 members of the Selected Reserve and the Individual Ready Reserve may be on active duty pursuant to this subsection at any one time, of whom not more than 30,000 may be members of the Individual Ready Reserve.

"(5) RESPONSE CAPABILITIES.—No unit or member of a reserve component may be ordered to active duty pursuant to this subsection to provide assistance referred to in paragraph (2) unless the President determines that the requirements for responding to an

emergency referred to in that subsection have exceeded, or will exceed, the response capabilities of local, State, and Federal civilian agencies.

"(6) TERMINATION.—Whenever any unit of the Selected Reserve or any member of the Selected Reserve not assigned to a unit organized to serve as a unit, or any member of the Individual Ready Reserve, is ordered to active duty pursuant to paragraph (1), the service of all units or members so ordered to active duty may be terminated by—

"(A) order of the President; or

"(B) law.

"(7) REPORT.—Whenever the President authorizes the Secretary of Defense or the Secretary of Homeland Security to order any unit or member of the Selected Reserve or Individual Ready Reserve to active duty, pursuant to paragraph (1), the President shall, within 24 hours after exercising such authority, submit to Congress a report, in writing, setting forth the circumstances necessitating the action taken under this section and describing the anticipated use of these units or members.

"(8) RULE OF CONSTRUCTION.—Nothing contained in this subsection shall be construed as amending or limiting the application of the provisions of the War Powers Resolution (50 U.S.C. 1541 et seq.).

"(d) ANNUAL ACTIVE DUTY.—At any time, an authority designated by the Secretary concerned may, without the consent of the persons affected, order any unit, and any member not assigned to a unit organized to serve as a unit, in an active status in a reserve component under the jurisdiction of that Secretary to active duty under section 12341 of this title for not more than 15 days a year. However, units and members of the Army National Guard of the United States or the Air National Guard of the United States may not be ordered to active duty under this

subsection without the consent of the governor of the State (or, in the case of the District of Columbia National Guard, the commanding general of the District of Columbia National Guard). The consent of a Governor may not be withheld (in whole or in part) with regard to active duty outside the United States, its territories, and its possessions, because of any objection to the location, purpose, type, or schedule of such active duty.

"(e) READY RESERVE: UNSATISFACTORY PARTICIPATION.—

"(1) AUTHORITY TO ORDER TO ACTIVE DUTY.—

"(A) IN GENERAL.—Notwithstanding any other provision of law, the President may order to active duty under section 12341 of this title any member of the Ready Reserve of an armed force who—

"(i) is not assigned to, or participating satisfactorily in, a unit of the Ready Reserve;

"(ii) has not fulfilled the member's statutory reserve obligation; and

"(iii) has not served on active duty for a total of 24 months.

"(B) DURATION AND EXTENSION.—A member who is ordered to active duty pursuant to paragraph (1) may be required to serve on active duty until the member's total service on active duty equals 24 months. If the member's enlistment or other period of military service would expire before the member has served the required period under this paragraph, the enlistment or other period of military service may be extended until the member has served the required period.

"(2) FAILURE TO PERFORM SATISFACTORILY.—

"(A) IN GENERAL.—A member of the Ready Reserve covered by section 12352 of this title who fails in any year to perform satisfactorily the training duty prescribed in that section, as determined by the Secretary concerned under regulations prescribed by the Secretary of Defense, may be ordered without the member's consent to perform additional active duty for training under section 12341 of this title for not more than 45 days. If the failure occurs during the last year of the member's required membership in the Ready Reserve, the member's membership is extended until the member performs that additional active duty for training, but not for more than six months.

"(B) ARMY NATIONAL GUARD OR AIR NATIONAL GUARD.—A member of the Army National Guard of the United States or the Air National Guard of the United States who fails in any year to perform satisfactorily the training duty prescribed by or under law for members of the Army National Guard or the Air National Guard, as the case may be, as determined by the Secretary concerned, may, upon the request of the Governor of the State (or, in the case of the District of Columbia, the commanding general of the District of Columbia National Guard) be ordered, without the member's consent, to perform additional active duty for training under section 12341 of this title for not more than 45 days. A member ordered to active duty under this subsection shall be ordered to duty as a Reserve of the Army or as a Reserve of the Air Force, as the case may be. However, the consent of a Governor may not be withheld (in whole or in part) with regard to active duty outside the United States, its territories, and

its possessions, because of any objection to the location, purpose, type, or schedule of such active duty.

"(f) CAPTIVE STATUS.—A member of a reserve component may be ordered to active duty under section 12341 of this title without the member's consent if the Secretary concerned determines that the member is in a captive status. A member ordered to active duty under this section may not be retained on active duty, without the member's consent, for more than 30 days after the member's captive status is terminated.

"(g) MUSTER DUTY.—A member of the Ready Reserve may be ordered without the member's consent to muster duty under section 12343 of this title one time each year. A member ordered to muster duty under this section shall be required to perform a minimum of two hours of muster duty on the day of muster. The muster duty shall be subject to the following requirements:

"(1) PERIOD OF TIME.—The period which a member may be required to devote to muster duty under this section, including round-trip travel to and from the location of that duty, may not total more than one day each calendar year.

"(2) TREATMENT AS INACTIVE DUTY AND TRAVEL.—Except as specified in paragraph (3), muster duty (and travel directly to and from that duty) under this section shall be treated as inactive duty (and travel directly to and from that duty) for the purposes of this title and the provisions of title 37 (other than section 206(a) of title 37) and title 38, including provisions relating to the determination of eligibility for and the receipt of benefits and entitlements provided under those titles for Reserves performing inactive duty and for their dependents and survivors.

"(3) NOT CREDITED FOR RETIRED PAY PURPOSES.—Muster duty under this subsection shall not be credited in determining entitlement to, or in computing, retired pay under chapter 1223 of this title.

"(h) CONSIDERATION FOR MOBILIZATION.—To achieve fair treatment between members in the Ready Reserve who are being considered for recall to duty without their consent pursuant to subsection (b), (c) or (e)(1), consideration shall be given to—

"(1) the length and nature of previous service, to assure such sharing of exposure to hazards as the national security and military requirements will reasonably allow;

"(2) the frequency of assignments during service career;

"(3) family responsibilities; and

"(4) employment necessary to maintain the national health, safety, or interest.

"(i) DEFINITIONS. In this section:

"(1) CAPTIVE STATUS.—The term 'captive status' means the status of a member of the armed forces who is in a missing status (as defined in section 551(2) of title 37) which occurs as the result of a hostile action and is related to the member's military status.

"(2) INDIVIDUAL READY RESERVE MOBILIZATION CATEGORY.—The term 'Individual Ready Reserve mobilization category' means, in the case of any reserve component, the category of the Individual Ready Reserve described in section 10144(b) of this title.

"(3) WEAPONS OF MASS DESTRUCTION.—The term 'weapon of mass destruction' has the meaning given that term in section 1403 of the Defense Against Weapons of Mass Destruction Act of 1996 (50 U.S.C. 2302).

"§12352. Reserve component: required training

"(a) PURPOSE.— Except as specifically provided in regulations to be prescribed by the Secretary of Defense, or by the Secretary of Homeland Security with respect to the Coast Guard when the Coast Guard is not operating as a service in the Navy, each person who is enlisted, inducted, or appointed in an armed force, and who becomes a member of the Ready Reserve under any provision of law except section 513 or 10145(b) of this title, shall be required, while in the Ready Reserve, to maintain readiness as determined by the Secretary concerned by—

"(1) participating in at least 48 scheduled drills or training periods during each year pursuant to section 12343 of this title and serve on active duty for training under section 12341 of this title for not less than 14 days (exclusive of travel time) during each year; or

"(2) serving on active duty for training under section 12341 of this title for not more than 30 days during each year.

"(b) EXCEPTION FOR CERTAIN MEMBERS.—A member who has served on active duty for one year or longer may not be required to perform a period of active duty for training if the first day of that period falls during the last 120 days of the member's required membership in the Ready Reserve.

"§ 12353. Reserve component: optional duty

"(a) ACTIVE DUTY.—

"(1) IN GENERAL.—At any time, an authority designated by the Secretary concerned may order a member of a reserve component under his jurisdiction to active duty under section 12341 of this title, or retain the member on active duty, with the

consent of that member for training, to provide operational support or perform other duty as determined by the Secretary concerned.

"(2) PURPOSES.—Such duty includes service on active duty for the purpose specified in section or section 802(d), 1491, 3038, 5143, 5144, 8038, 10211, 10301 through 10305, 10502, 10505, 10506, 10507, 12402, or 12405 of this title.

"(3) ARMY NATIONAL GUARD OR AIR NATIONAL GUARD.—However, a member of the Army National Guard of the United States or the Air National Guard of the United States may not be ordered to active duty under this subsection without the consent of the Governor or other appropriate authority of the State concerned. The consent of a Governor may not be withheld (in whole or in part) with regard to active duty outside the United States, its territories, and its possessions, because of any objection to the location, purpose, type, or schedule of such active duty.

"(b) ACTIVE DUTY FOR HEALTH CARE.—

"(1) IN GENERAL.—When authorized by the Secretary of Defense, the Secretary of a military department may, with the consent of the member, order a member of a reserve component to active duty under section 12341 of this title—

"(A) to receive authorized medical care;

"(B) to be medically evaluated for disability or other purposes; or

"(C) to complete a required Department of Defense health care study,

which may include an associated medical evaluation of the member.

"(2) TREATMENT FOR OR RECOVERY FROM AN INJURY, ILLNESS OR DISEASE.—A member of a uniformed service described in paragraph (1)(B) or (2)(B) of section 1074a(a) of this title may be ordered to active duty under section 12341 of this title, and a

member of a uniformed service described in paragraph (1)(A) or (2)(A) of section 1074a may be continued on active duty under section 12341 of this title, for a period of more than 30 days while the member is being treated for (or recovering from) an injury, illness, or disease incurred or aggravated in the line of duty as described in any of such paragraphs.

"(3) RETENTION ON ACTIVE DUTY.—A member ordered to active duty under this subsection may, with the member's consent, be retained on active duty, if the Secretary concerned considers it appropriate, for medical treatment for a condition associated with the study or evaluation, if that treatment of the member is otherwise authorized by law.

"(4) ARMY NATIONAL GUARD OR AIR NATIONAL GUARD.—However, a member of the Army National Guard of the United States or the Air National Guard of the United States may not be ordered to active duty under this subsection without the consent of the Governor or other appropriate authority of the State concerned.

"(c) ORGANIZING, ADMINISTERING, ETC., RESERVE COMPONENTS.—

"(1) IN GENERAL.—The Secretary concerned may order a member of a reserve component under the Secretary's jurisdiction to active duty pursuant to section 12341 of this title to perform Active Guard and Reserve duty to organize, administer, recruit, instruct, or train the reserve components.

"(2) RESERVE GRADE; ELIGIBILITY FOR PROMOTION.—A Reserve ordered to active duty under paragraph (1) shall be ordered in the Reserve's reserve grade. While so serving, the Reserve continues to be eligible for promotion as a Reserve, if otherwise qualified.

"(3) ADDITIONAL DUTIES.—A Reserve on active duty under this subsection may perform the following additional duties to the extent that the performance of those duties does not interfere with the performance of the Reserve's primary Active Guard and Reserve duties described in paragraph (1):

"(A) SUPPORTING RESERVE COMPONENTS.—Supporting operations or missions assigned in whole or in part to the reserve components.

"(B) SUPPORTING UNITS.—Supporting operations or missions performed or to be performed by—

"(i) a unit composed of elements from more than one component of the same armed force; or

"(ii) a joint forces unit that includes—

"(I) one or more reserve component units; or

"(II) a member of a reserve component whose reserve component assignment is in a position in an element of the joint forces unit.

"(C) ADVISING.—Advising the Secretary of Defense, the Secretaries of the military departments, the Joint Chiefs of Staff, and the commanders of the combatant commands regarding reserve component matters.

"(D) INSTRUCTION OR TRAINING.—Instructing or training in the United States, the Commonwealth of Puerto Rico, or possessions of the United States of—

"(i) active-duty members of the armed forces;

"(ii) members of foreign military forces (under the same authorities and restrictions applicable to active-duty members providing such instruction or training);

"(iii) Department of Defense contractor personnel; or

"(iv) Department of Defense civilian employees.

"(4) OPERATIONS RELATING TO DEFENSE AGAINST WEAPONS OF MASS DESTRUCTION AND TERRORIST ATTACKS.—

"(A) IN GENERAL.—Notwithstanding paragraph (3), a Reserve on active duty as described in paragraph (1), or a Reserve who is a member of the National Guard serving on full-time National Guard duty under section 502(f) of title 32 in connection with functions referred to in paragraph (1), may, subject to subparagraph (C), perform duties in support of emergency preparedness programs to prepare for or to respond to any emergency involving any of the following:

"(i) WEAPONS OF MASS DESTRUCTION.—The use or threatened use of a weapon of mass destruction (as defined in section 1403 of the Defense Against Weapons of Mass Destruction Act of 1996 (50 U.S.C. 2302) in the United States.

"(ii) TERRORIST ATTACK OR THREATENED TERRORIST ATTACK.—A terrorist attack or threatened terrorist attack in the United States that results, or could result, in catastrophic loss of life or property.

"(iii) RELEASE OF CERTAIN MATERIALS.—The intentional or unintentional release of nuclear, biological, radiological, or toxic or

poisonous chemical, materials in the United States that results, or could result, in catastrophic loss of life or property.

"(iv) NATURAL OR MAN-MADE DISASTER.—A natural or manmade disaster in the United States that results in, or could result in, catastrophic loss of life or property.

"(B) COSTS.—The costs of the pay, allowances, clothing, subsistence, gratuities, travel, and related expenses for a Reserve performing duties under the authority of paragraph (1) shall be paid from the appropriation that is available to pay such costs for other members of the reserve component of that Reserve who are performing duties as described in paragraph (1).

"(C) CIVIL SUPPORT TEAM.—A Reserve may perform duty described in subparagraph (A) only while assigned to a reserve component weapons of mass destruction civil support team.

"(D) ANNUAL END STRENGTH AUTHORIZATION AND JUSTIFICATION MATERIAL.—Reserves on active duty who are performing duties described in subparagraph (A) shall be counted against the annual end strength authorizations required by sections 115(a)(1)(B) and 115(a)(2) of this title. The justification material for the defense budget request for a fiscal year shall identify the number and component of the Reserves programmed to be performing duties described in subparagraph (A) during that fiscal year.

"(E) CERTIFICATION REQUIRED.—A reserve component weapons of mass destruction civil support team, and any Reserve assigned to such a team, may not be used to respond to an emergency described in subparagraph (A) unless the

Secretary of Defense has certified to the Committee on Armed Services of the Senate and the Committee on Armed Services of the House of Representatives that that team, or that Reserve, possesses the requisite skills, training, and equipment to be proficient in all mission requirements.

"(F) REQUEST FOR LEGISLATION.—If the Secretary of Defense submits to Congress any request for the enactment of legislation to modify the requirements of subparagraphs (A) and (C), the Secretary shall provide with the request—

"(i) justification for each such requested modification; and

"(ii) the Secretary's plan for sustaining the qualifications of the personnel and teams described in subparagraph (C).

"(G) DEFINITION OF UNITED STATES.—In this subsection, the term "United States" includes the Commonwealth of Puerto Rico, Guam, and the United States Virgin Islands.

"(5) TRAINING.—A Reserve on active duty as described in this subsection may be provided training consistent with training provided to other members on active duty, as the Secretary concerned sees fit.

"(d) INACTIVE DUTY.—

"(1) IN GENERAL.—At any time, an authority designated by the Secretary concerned may require a member of a reserve component under the Secretary's jurisdiction, with the consent of the member, to perform inactive duty under section 12343 of this title to provide readiness training, perform administrative fuuction to prepare for unit training, perform funeral honors functions at the funeral of a veteran as defined in section 1491 of this title (other than for members of the Army National Guard

of the United States or the Air National Guard of the United States who perform funeral honors duty under section 502(g) of title 32), or perform other inactive duty as determined by the Secretary concerned.

"(2) PAY.—As directed by the Secretary concerned, a member performing funeral honors functions may be paid—

"(A) the allowance under section 495 of title 37; or

"(B) compensation under section 206 of title 37.

"(3) TRAVEL AND TRANSPORTATION EXPENSES.—A member who performs funeral honors functions may be reimbursed for travel and transportation expenses incurred in conjunction with such duty as authorized under section 495 of title 37 if such duty is performed at a location 50 miles or more from the member's residence.".

(d) TRAINING AND OTHER DUTIES PERFORMED BY MEMBERS OF THE NATIONAL GUARD.—

(1) CHAPTER HEADING.—The chapter heading for chapter 5 of title 32, United States Code, is amended by inserting "**AND OTHER DUTY**" after "**TRAINING**";

(2) OTHER AMENDMENTS.—Section 502 of title 32, United States Code, is further amended—

(A) by amending the section heading to read as follows:

"§ 502. Required training, field exercises, and other duty";

(B) in subsection (a)—

(i) in paragraph (1)—

(I) by striking "drill" and inserting "training"; and

(II) by inserting "under subsection (g)" before "at least";

(ii) in paragraph (2), by inserting "under subsection (f)(1)" before "at least";

(C) in subsection (b), by striking "drill" each place the term appears and inserting "training";

(D) in subsection (d)—

(i) in the matter preceding paragraph (1), by striking "drill" and inserting "training"; and

(ii) in paragraph (2), by striking "one and one-half hours" and inserting "two hours";

(E) in subsection (e), by striking "drill" each place the term appears and inserting "training";

(F) in subsection (f)—

(i) in paragraph (1)—

(I) in the matter preceding subparagraph (A), by inserting ", which regulations shall conform to regulations prescribed by the Secretary of Defense for Reserve component members," after "as the case may be,"; and

(II) in the matter following subparagraph (B), by inserting "to full-time National Guard duty" after "be ordered"; and

(ii) in paragraph (2), by adding at the end the following new subparagraph:

"(C) Support for funerals of veterans of the armed forces pursuant to section 1491 of title 10.";

(iii) by redesignating paragraph (3) as paragraph (8); and

(iv) by adding after paragraph (2) (as amended by clause (ii)) the following new paragraphs:

"(3) FULL-TIME NATIONAL GUARD DUTY.—Full-time National Guard duty shall not be performed on land outside the United States, its territories or possessions.

"(4) PURPOSE OF CALL ORDER.—To account for manpower utilization and expenditure of appropriations, each order to full-time National Guard duty shall cite the purpose of the call or order as provided in this section or section 112, 114, 316, 503, 504, 505, 509, or 904 of this title.

"(5) LIMITATIONS AND RESTRICTIONS.—A member of the National Guard shall not be ordered to full-time National Guard duty or retained on full-time National Guard duty beyond the limitations and restrictions specified in the purpose of the order to full-time National Guard duty.

"(6) AMENDED ORDERS.—When the purpose for the member to serve on full-time National Guard duty changes, the order to full-time National Guard duty shall be amended to cite the new purpose and applicable funding code, but the member shall remain on the same order to full-time National Guard duty.

"(7) CONTINUOUS FEDERAL SERVICE.—If a member is released from full-time National Guard duty and subsequently ordered to active duty with a break in service of 24 hours or fewer, the period of service shall be treated as continuous federal service for the purposes of pay and benefits unless otherwise specified in law."; and

(G) by adding at the end the following new subsection:

"(g) INACTIVE DUTY.—

"(1) IN GENERAL.—Under regulations to be prescribed by the Secretary of the Army or the Secretary of the Air Force, as the case may be, which shall conform to

regulations prescribed by the Secretary of Defense for Reserve component members, a member of the National Guard may be required to perform inactive duty, in addition to that prescribed under subsection (a), to provide additional readiness training, perform administrative function to prepare for unit training, perform funeral honors functions for veterans of the armed forces pursuant to section 1491 of title 10, or perform other inactive duty as authorized by the Secretary concerned.

"(2) DOCUMENTATION.—To account for manpower utilization and expenditure of appropriations, the purpose for inactive duty and the associated funding code shall be documented.

"(3) DESIGNATED HOSTILE FIRE OR IMMINENT DANGER AREA.—Inactive duty shall not be performed in designated hostile fire or imminent danger area.

"(4) LAND OUTSIDE THE UNITED STATES, ITS TERRITORIES OR POSSESSIONS.—Inactive duty shall not be performed on land outside the United States, its territories or possessions.

"(5) DURATION OF INACTIVE DUTY.—Each period of inactive duty shall be for duration of at least two hours.

"(6) DURATION OF COMPENSATION AND SERVICE CREDIT.—Compensation under section 206 of title 37 and service credit under section 12732(a)(2)(E) of title 10 shall not exceed two periods of inactive duty in a calendar day.

"(7) PAY FOR PERFORMING FUNERAL HONORS.—As directed by the Secretary concerned, a member performing funeral honors functions may be paid—

"(A) the allowance under section 495 of title 37; or

"(B) compensation under section 206 of title 37.".

(e) REDESIGNATION OF INACTIVE DUTY TO ENCOMPASS OPERATIONAL AND OTHER DUTIES PERFORMED WHILE IN AN ACTIVE DUTY STATUS.—

(1) REFERENCES.—Any reference that is made in any law, regulation, document, paper, or other record of the United States to inactive-duty training, as such term applies to members of the reserve components of the uniformed services, shall be deemed to be a reference to inactive duty.

(2) DEFINITION OF UNIFORMED SERVICES.—In this subsection the term "uniformed services" has the meaning given the term in section 101 of title 10, United States Code.

(f) CONFORMING AMENDMENTS TO TITLE 5, UNITED STATES CODE.—

(1) Paragraph (2) of section 5517(d) of title 5, United States Code, is amended by striking "under section 10147" and inserting "as provided under section 12352".

(2) Section 6323 of title 5, United States Code, is amended—

(A) in paragraph (1) of subsection (a)—

(i) by striking "inactive-duty training" and inserting "inactive duty"; and

(ii) by striking "funeral honors duty (as described in section 12503 of title 10 and section 115 of title 32)" and inserting "funeral honors functions (as described in section 12353 of title 10 and section 114 of title 32)"; and

(B) in paragraph (1) subsection (d), by striking "section 12301(b) or 12301(d)" and inserting "section 12341 of title 10 for the purposes specified in section 12351(d) or 12353(a)".

(g) CONFORMING AMENDMENTS TO TITLE 7, UNITED STATES CODE.— Paragraph (1) of section 332(a) of the Consolidated Farm and Rural Development Act (7 U.S.C. 1982(a)) is amended by striking "12301(a), 12301(g), 12302, 12304, 12306, or 12406," and inserting "12341 for the purpose specified in section 12306, 12342, 12351(a)(1), 12351(b), 12351(c), or 12351(f), 12342 for the purpose specified in section 12406,".

(h) CONFORMING AMENDMENTS TO TITLE 10, UNITED STATES CODE.—

(1) Section 101 of title 10, United States Code, is amended—

(A) in subparagraph (B) of subsection (a)(13), by striking "section 688, 12301(a), 12302, 12304, 12304a, 12305, or12406 of this title, chapter 15 of this title" and inserting "section 688 or 12341 of this title for the purpose specified in section 12304a, 12305, 12351(a)(1), 12351(b), 12351(c) of this title, section 12342 of this title for the purpose specified in section 12406, chapter 15 of this title";

(B) in paragraph (16) of subsection (b), by striking "section 12301(d) of this title" and inserting "section 12341 of this title for the purpose specified in section 12353(c) of this title";

(C) in paragraph (5) of subsection (d)—

(i) by inserting "502(f) of title 32 for the purpose specified in section" after "under section"; and

(ii) by striking "505 of title 32" and inserting "505 of such title";

(D) in paragraph (7) of subsection (d)—

(i) in the matter preceding subparagraph (A), by striking "inactive-duty training" and inserting "inactive duty";

(ii) in subparagraph (A), by striking "section 206 of title 37" and inserting "section 12352(a)(1) of this title, section 502(a)(1) of title 32,"; and

(iii) in subparagraph (B)—

(I) by inserting "under section 12353(d) of this title or section 502(g) of title 32" after "special additional duties authorized"; and

(II) by inserting ", or other activities that a member may perform when authorized by the designated authority" before the period.

(2) Section 115 of title 10, United States Code, is amended—

(A) in subsection (b)(1)—

(i) in subparagraph (A), by striking "section 12301(d)" and inserting "section 12341";

(ii) in subparagraph (C), by striking "section 12301(d)" and inserting "section 12341";

(iii) in subparagraph (D)—

(I) by striking "section 12301(g)" and inserting "section 12341"; and

(II) by inserting "as provided under section 12351(f) of such title" before the semicolon; and

(iv) in subparagraph (E)—

(I) by striking "12301(h) or 12322" and inserting "section 12341"; and

(II) by inserting "as provided under section 12353(b) of this title" before the semicolon;

(B) in subsection (i)—

(i) in paragraph (1), by striking "section 12301(a) of this title" and inserting "section 12341 of this title for the purpose specified in section 12351(a) of this title";

(ii) in paragraph (2), by striking "section 12301(b) of this title" and inserting "section 12341 of this title for the purpose specified in section 12351(d) of this title";

(iii) in paragraph (3), by striking "section 12302 of this title" and inserting "section 12341 of this title for the purpose specified in section 12351(b) of this title";

(iv) in paragraph (4), by striking "section 12304 of this title" and inserting "section 12341 of this title for the purpose specified in section 12351(c) of this title";

(v) in paragraph (5), by inserting "section 12342 of this title for the purpose specified in" after "Federal service under";

(vi) in paragraph (6), by inserting "section 12342 of this title for the purpose specified in" after " Federal service under"; and

(vii) in paragraph (11), by inserting "12341 for the purpose specified in section" after "active duty under section".

(3) Section 331 of title 10, United States Code, is amended by inserting "under section 12342 of this title" after "call into Federal service".

(4) Section 332 of title 10, United States Code, is amended by inserting "under section 12342 of this title" after "call into Federal service".

(5) Paragraph (3) of section 511(d) of title 10, United States Code, is amended by striking "seetion 10147(a)(1)" and inserting "section 12352(a)(1)".

(6) Subparagraph (B) of section 523(b)(1) of title 10, United States Code, is amended by inserting "12341 of this title for the purpose specified in section" after "on active duty under section".

(7) Subparagraph (B) of section 641(1) of title 10, United States Code, is amended by inserting "section 12341 for the purpose described in" after "on active duty under".

(8) Section 802 of title 10, United States Code, is amended in each of subsections (a)(3), (d)(2)(B), and (d)(5)(B), by striking 'inactive-duty training' and inserting "inactive duty".

(9) Subsection (d) of section 803 of title 10, United States Code, is amended by striking "inactive-duty training" each place the term appears and inserting "inactive duty".

(10) The matter preceding paragraph (1) of subsection (a) and the matter preceding paragraph (1) of subsection (b) of section 936 of title 10, United States Code, are each amended by striking "inactive-duty training" and inserting "inactive duty".

(11) Paragraph (1) of section 976(a) of title 10, United States Code, is amended by striking "inactive-duty training" and inserting "inactive duty".

(12) Paragraphs (1) and (2) of section 1061(b) of title 10, United States Code, are each amended by striking "inactive-duty training" and inserting "inactive duty".

(13) Subsection (a) of section 1074a of title 10, United States Code, is amended in each of paragraphs (1)(B), (2)(B), and (3) by striking "inactive-duty training" each place the term appears and inserting "inactive duty".

(14) Subsection (a) of section 1074a of title 10, United States Code, is amended further—

(A) in paragraph (1)—

(i) in subparagraph (A), by inserting "or" after the semicolon;

(ii) in subparagraph (B), by striking "; or" and inserting a period; and

(iii) by striking subparagraph (C);

(B) in paragraph (2)—

(i) in subparagraph (A), by inserting "or" after the semicolon;

(ii) in subparagraph (B), by striking "; or" and inserting a period; and

(iii) by striking subparagraph (C); and

(C) by striking paragraph (4).

(15) Subsection (a) of section 1076 of title 10, United States Code, is amended—

(A) in each paragraphs (2)(B)(i), (2)(B)(ii), and (2)(C), by striking "inactive-duty training" each place the term appears and inserting "inactive duty"; and

(B) in paragraph (2), by striking subparagraph (E).

(16) Clauses (i) and (ii) of section 1086(c)(2)(B) of title 10, United States Code, are each amended by striking "inactive duty training" and inserting "inactive duty".

(17) Paragraph (2) of section 1175(e) of title 10, United States Code, is amended by striking "inactive duty training" and inserting "inactive duty".

(18) Section 1175a(j) of title 10, United States Code, is amended—

(A) in paragraph (2)—

(i) by inserting "under section 12341 of this title for the purpose specified in section 12351(a)(1), 12351(b), 12351(c), 12351(d), 12351(e)(1), or 12351(f) of this title" after "involuntarily recalled to active duty"; and

(ii) by striking "in accordance with section 12301(a), 12301(b), 12301(g), 12302, 12303, or 12304 of this title or" and inserting "under"; and

(B) in paragraph (3)—

(i) by striking "12301(d)" and inserting "12353(a)";

(ii) by striking "12319, or 12503" and inserting "12351(g)"; and

(iii) by striking ", 115,".

(19) Paragraph (2) of section 1201(c) of title 10, United States Code, is amended by striking "under section 10148(a)" and inserting "pursuant to section 12351(e)(2)".

(20) Section 1204 of title 10, United States Code, is amended—

(A) in the section heading, by striking "**inactive-duty training**" and inserting "**inactive duty**"; and

(B) in paragraph (2)—

(i) in each of subparagraphs (A)(i), (A)(iii), (B)(i), and (B)(iii), by striking "inactive-duty training" each place the term appears and inserting "inactive duty";

(ii) in clause (iii) of subparagraph (A), by inserting "or" after the semicolon;

(iii) in clause (iii) of subparagraph (B), by striking "; or" and inserting a period; and

(iv) by striking subparagraph (C).

(21) Section 1206 of title 10, United States Code, is amended—

(A) in the section heading, by striking "**inactive-duty training**" and inserting "**inactive duty**";

(B) by amending paragraph (2) to read as follows:

"(2) the disability is a result of an injury, illness, or disease incurred or aggravated in line of duty while—

"(A) performing active duty or inactive duty;

"(B) traveling directly to or from the place at which such duty is performed; or

"(C) remaining overnight immediately before the commencement of inactive duty, or while remaining overnight between successive periods of inactive duty, at or in the vicinity of the site of the inactive duty, if the site is outside reasonable commuting distance of the member's residence;"; and

(C) in paragraph (5), by striking "inactive-duty training" and inserting "inactive duty";

(22) Subparagraph (B) of section 1448(f)(1) of title 10, United States Code, is amended by striking "inactive-duty training" and inserting "inactive duty".

(23) Clauses (ii) and (iii) of section 1471(b)(3)(A) of title 10, United States Code, are each amended by striking "inactive duty for training" and inserting "inactive duty".

(24) Section 1475 of title 10, United States Code, is amended—

(A) in the section heading, by striking "**inactive duty training**" and inserting "**inactive duty**"; and

(B) in each of paragraphs (2) and (3) of subsection (a), by striking "inactive duty training" each place the term appears and inserting "inactive duty".

(25) Paragraphs (1)(B) and (2)(A) of section 1476(a) of title 10, United States Code, are each amended by striking "inactive-duty training" and inserting "inactive duty".

(26) Paragraphs (3), (4), (8), and (9) of section 1478(a) of title 10, United States Code, are each amended by striking "inactive duty training" each place the term appears and inserting "inactive duty".

(27) Section 1481(a)(2) of title 10, United States Code, is amended—

(A) in each of subparagraphs (B), (C), (D), and (F), by striking "inactive-duty training" each place the term appears and inserting "inactive duty"; and

(B) in subparagraph (E), by striking "inactive duty training" and inserting "inactive duty".

(28) Paragraph (2) of section 1481(a) of title 10, United States Code, is amended further—

(A) in subparagraph (E) (as amended by paragraph (27)(B)), by inserting "or" after the semicolon;

(B) in subparagraph (F) (as amended by paragraph (27)(A)), by striking "; or" and inserting a period; and

(C) by striking subparagraph (G).

(29) Subsections (d)(2) and (e)(5) of section 2031 of title 10, United States Code, are each amended by striking "inactive duty training" and inserting "inactive duty".

(30) Subparagraph (D) of section 2107(c)(5) of title 10, United States Code, is amended by striking "inactive duty for training" and inserting "inactive duty".

(31) Subparagraph (D) of section 2107a(c)(4) of title 10, United States Code, is amended by striking "inactive duty for training" and inserting "inactive duty".

(32) The matter preceding paragraph (1) of section 2601a(b) of title 10, United States Code, is amended by striking "inactive-duty training" and inserting "inactive duty".

(33) Paragraph (3) of section 9446(a) of title 10, United States Code, is amended by striking "inactive-duty training" and inserting "inactive duty".

(34) Subsection (a) of section 10142 of title 10, United States Code, is amended by striking "as provided in sections 12301 and 12302 of this title" and inserting "under section 12341 of this title for the purposes specified in sections 12351(a) and 12351(b) of this title".

(35) Subsection (a) of section 10143 of title 10, United States Code, is amended by striking "10147(a)(1)" and inserting "12352".

(36) The matter preceding subparagraph (A) of section 10144(b)(1) of title 10, United States Code, is amended by striking "in accordance with section 12304" and inserting "under section 12341 of this title for the purpose specified in section 12351(c)".

(37) Chapter 1005 of title 10, United States Code, is amended—

(A) by repealing section 10147; and

(B) by repealing section 10148.

(38) Section 10151 of title 10, United States Code, is amended by striking "sections 12301 and 12306" and inserting "section 12351(a)".

(39) Subsection (b) of section 10204 of title 10, United States Code, is amended by striking "inactive duty training" and inserting "inactive duty".

(40) Subsection (a) of section 10215 of title 10, United States Code, is amended—

(A) in subparagraph (A) of paragraph (1), by striking "section 12301(d)" and inserting "section 12341 of this title as provided in section 12353(a)"; and

(B) in subparagraph (A) of paragraph (2), by striking "section 12301(d)" and inserting "section 12341 of this title as provided in section 12353(a)".

(41) Paragraph (9) of section 10541(b) of title 10, United States Code, is amended by striking "12304(b)" and inserting "12351(c)(2)".

(42) Paragraph (1) of section 12011(e) of title 10, United States Code, is amended by striking "12310" and inserting "12353(c)".

(43) Subsection (a) of section 12012 of title 10, United States Code, is amended by striking "section 10211 or 12310" and inserting "section 12341 of this title for the purpose specified in section 10211 or 12353(c) of this title".

(44) Section 12305 of title 10, United States Code, is amended—

(A) in subsection (a), by striking "section 12301, 12302, or 12304" and inserting "section 12341 of this title for the purpose specified in section 12351(a), 12351(b), or 12351(c)"; and

(B) in subsection (b), by striking "section 12301, 12302, or 12304" and inserting "section 12341 of this title for the purpose specified in section 12351(a), 12351(b), or 12351(c)".

(45) Section 12306 of title 10, United States Code, is amended—

(A) in subsection (a), by striking "section 12301" and inserting "section 12341 of this title for the purpose specified in section 12351(a), 12351(d), 12351(f), 12353(a), or 12353(b)"; and

(B) in paragraph (1) of subsection (b)—

(i) by striking "section 12301(a)" and inserting "section 12341 of this title for the purpose specified in section 12351(a)(1) of this title"; and

(ii) in paragraph (2) of subsection (b), by striking "12301(a)" and inserting "12351(a)".

(46) Section 12307 of title 10, United States Code, is amended by striking "12301(a)" and inserting "12351(a)".

(47) Section 12317 of title 10, United States Code, is amended by striking "inactive duty training" and inserting "inactive duty".

(48) Section 12318 of title 10, United States Code, is amended—

(A) in subsection (a), by striking "section 12302 or 12304" and inserting "section 12341 of this title for the purpose specified in section 12351(b) or 12351(c)"; and

(B) in subsection (b)—

(i) by striking "referred to section 12310" and inserting "performing duty referred to in section 12353(c)"; and

(ii) by striking "section 12302 or 12304" and inserting "section 12351(b) or 12351(c)".

(49) Section 12321 of title 10, United States Code, is amended by striking "of organizing, administering, recruiting, instructing, or training the reserve components" and inserting "specified in section 12353(c) of this title".

(50) Section 12408 of title 10, United States Code, is amended by striking "section 12301(a), 12302, or 12304 of this title" and inserting "12341 of this title for the purpose specified in section 12351(a)(1), 12351(b) or 12351(c) of this title".

(51) Section 12503 of title 10, United States Code, is repealed.

(52) Section 12552 of title 10, United States Code, is repealed.

(53) Subsections (a)(3) and (b)(3) of section 12602 of title 10, United States Code, are each amended by striking "inactive-duty training" each place the term appears and inserting "inactive duty".

(54) Section 12603 of title 10, United States Code, is amended—

(A) in the section heading, by striking "**inactive-duty training**" and inserting "**inactive duty**"; and

(B) in subsection (a), by striking "inactive duty training" and inserting "inactive duty".

(55) Section 12604 of title 10, United States Code, is amended—

(A) in the section heading, by striking "**inactive-duty training**" and inserting "**inactive duty**"; and

(B) in subsection (a), by striking "inactive-duty training" and inserting "inactive duty".

(56) Subsection (b) of section 12686 of title 10, United States Code, is amended by striking "section 12301" and inserting "section 12341 of this title for the purpose specified in section 12351(a), 12351(d), 12351(f), 12353(a) or 12353(b)".

(57) Subparagraph (B) of section 12731(f)(2) of title 10, United States Code, is amended—

(A) in clause (i)—

(i) by striking "under section 12301(d)" and inserting "for the purpose specified in section 12353(a)"; and

(ii) by striking "under section 12310" and inserting "for the purpose specified in 12353(c)"; and

(B) in clause (iii), by striking "section 12301(h)(1)" and inserting "section 12341 of this title for the purpose specified in section 12353(b)(1)".

(58) Section 12732(a)(2) of title 10, United States Code, is amended—

(A) in the matter following subparagraph (E), by striking "clauses (A), (B), (C), (D) and (E)" and inserting "subparagraphs (A), (B), (C) and (D)"; and

(B) by striking subparagraph (E).

(59) Clause (i) of section 16131(c)(3)(B) of title 10, United States Code, is amended by striking "section 12301(a), 12301(d), 12301(g), 12302, or 12304" and

inserting "section 12341 of this title for the purpose specified in section 12351(a)(1), 12351(b), 12351(c), 12351(f), or 12353(a)".

(60) The matter preceding subparagraph (A) of section 16133(b)(4) of title 10, United States Code, is amended by striking "section 12301(a), 12301(d), 12301(g), 12302, or 12304" and inserting "section 12341 of this title for the purpose specified in section 12351(a)(1), 12351(b), 12351(c), 12351(f), or 12353(a)".

(61) Clause (i) of section 16162(d)(2)(B) of title 10, United States Code, is amended by striking "section 12301(a), 12301(d), 12301(g), 12302, or 12304 of this title" and inserting "section 12341 of this title for the purpose specified in section 12351(a)(1), 12351(b), 12351(c), 12351(f), or 12353(a) of this title".

(62) Section 18505 of title 10, United States Code, is amended—

(A) in the section heading, by striking "**inactive-duty training**" and inserting "**inactive duty**"; and

(B) in subsection (a), by striking "inactive-duty training" each place the term appears and inserting "inactive duty".

(i) CONFORMING AMENDMENTS TO TITLE 14, UNITED STATES CODE.

(1) Section 704 of title 14, United States Code, is amended by striking "inactive-duty training" and inserting "inactive duty".

(2) Subsection (a) of section 705 of title 14, United States Code, is amended by striking "inactive-duty training" and inserting "inactive duty".

(3) Paragraph (1) of section 712(c) of title 14, United States Code, is amended by striking "10147" and inserting "12352".

(j) CONFORMING AMENDMENTS TO TITLE 20, UNITED STATES CODE.—

(1) Subsection (c) of section 1404 of the Defense Dependents' Education Act of 1978 (20 U.S.C. 923) is amended—

(A) in clause (i) of paragraph (2)(B), by striking "section 12301 or 12302" and inserting "section 12341 of title 10, United States Code, for a purpose specified in section 12351(a), 12351(b), 12351(d), 12351(f), 12353(a) or 12353(b)"; and

(B) in clause (i) of paragraph (2)(C), by striking "section 12301 or 12302" and inserting "section 12341 of title 10, United States Code, for a purpose specified in section 12351(a), 12351(b), 12351(d), 12351(f), 12353(a) or 12353(b)".

(2) Subparagraph (A) of section 481(d)(4) of the Higher Education Act of 1965 (20 U.S.C. 1088(d)(4)) is amended by striking "section 12301(a), 12301(g), 12302, 12304, or 12306" and inserting "section 12341 of title 10, United States Code, for a purpose specified in section 12306, 12351(a), 12351(b), 12351(c), or 12351(f)".

(3) Subparagraph (C) of section 484C(c)(3) of the Higher Education Act of 1965 (20 U.S.C. 1091c(c)) is amended—

(A) in clause (i), by striking ", 12301(a), 12301(g), 12302, 12304, or 12305 of title 10, United States Code," and inserting "of title 10, United States Code, under section 12341 of such title for the purpose specified in section 12305, 12351(a), 12351(b), 12351(c), or 12351(f) of such title,"; and

(B) in clause (iii), by striking "section 12304 of title 10, United States Code" and inserting "section 12341 of title 10, United States Code, for the purpose specified in section 12351(c) of such title".

(4) Subparagraph (A) of section 5 of Higher Education Relief Opportunities for Students Act of 2003 (20 U.S.C. 1098ee(5)) is amended by striking "section 12301(a), 12301(g), 12302, 12304, or 12306 of title 10, United States Code," and inserting "section 12341 of title 10, United States Code, for the purpose specified in section 12306, 12351(a), 12351(b), 12351(c), or 12351(f) of such title,".

(k) CONFORMING AMENDMENTS TO TITLE 26, UNITED STATES CODE.—Subsection (m) of section 206 of the Internal Revenue Code of 1986 (26 U.S.C. 3121) is amended—

(1) in each of paragraphs (1)(B) and (3), by striking "inactive duty training" each place the term appears and inserting "inactive duty"; and

(2) in the heading for paragraph (3), by striking "INACTIVE DUTY TRAINING" and inserting "INACTIVE DUTY".

(l) CONFORMING AMENDMENTS TO TITLE 32, UNITED STATES CODE.—

(1) Paragraph (19) of section 101 of title 32, United States Code, is amended by striking "section 316, 502, 503, 504, or 505" and inserting "section 502(f) of this title for the purpose specified under section in section 112, 114, 316, 502, 503, 504, 505, 509, or 904".

(2) Section 114 of title 32, United States Code, is amended by striking "may not be considered to be a period of drill or training, but may be performed as funeral honors duty under section 115 of this title." and inserting "may be performed under section 502 of this title.".

(3) Section 115 of title 32, United States Code, is repealed.

(m) CONFORMING AMENDMENTS TO TITLE 37, UNITED STATES CODE.—

(1) The matter preceding subparagraph (A) of section 101(22) of title 37, United States Code, is amended by striking "inactive-duty training" and inserting "inactive duty".

(2) Section 204 of title 37, United States Code, is amended—

(A) in paragraph (1) of subsections (g)—

(i) in each of subparagraphs (B) and (D), by striking "inactive-duty training" each place the term appears and inserting "inactive duty";

(ii) by striking subparagraph (E);

(iii) in subparagraph (C), by inserting "or" after the semicolon; and

(iv) in subparagraph (D), by striking "; or" and inserting a period; and

(B) in paragraph (1) of subsections (h)—

(i) in each of subparagraphs (B) and (D), by striking "inactive-duty training" each place the term appears and inserting "inactive duty";

(ii) by striking subparagraph (E);

(iii) in subparagraph (C), by inserting "or" after the semicolon; and

(iv) in subparagraph (D), by striking "; or" and inserting a period.

(3) Subparagraph (A) of section 205(e)(2) of title 37, United States Code, is amended by striking "inactive-duty training" and inserting "inactive duty".

(4) Section 206 of title 37, United States Code, is amended—

(A) in the section heading, by striking "**inactive-duty training**" and inserting "**inactive duty**"; and

(B) in each of paragraphs (3)(A)(ii) and (3)(C) of subsection (a), by striking "inactive-duty training" each place the term appears and inserting "inactive duty".

(5) Section 305b of title 37, United States Code, is amended—

(A) in the heading for subsection (c), by striking "INACTIVE DUTY TRAINING" and inserting "INACTIVE DUTY"; and

(B) in subsection (e), by striking 12310(c)" and inserting "12353(c)(4)".

(6) Subsection (a) of section 308d of title 37, United States Code, is amended by striking "inactive duty for training" and inserting "inactive duty".

(7) The heading for subsection (e) of section 320 of title 37, United States Code, is amended by striking "INACTIVE DUTY TRAINING" and inserting "INACTIVE DUTY".

(8) Section 334 of title 37, United States Code, is amended—

(A) in the heading for subsection (e), by striking "INACTIVE DUTY TRAINING" and inserting "INACTIVE DUTY"; and

(B) in subsection (e), by striking "for inactive-duty training" and inserting "for inactive duty".

(9) Section 352 of title 37, United States Code, is amended—

(A) in the heading for subsection (d), by striking "INACTIVE DUTY TRAINING" and inserting "INACTIVE DUTY"; and

(B) in subsection (d), by striking "for inactive-duty training" and inserting "for inactive duty".

(10) Subparagraph (B) of section 353(c)(1) of title 37, United States Code, is amended by striking "inactive-duty training" and inserting "inactive duty".

(11) Section 415 of title 37, United States Code, is amended—

(A) in paragraph (3) of subsection (a), by striking "inactive-duty training" and inserting "inactive duty"; and

(B) in paragraph (1) of subsection (c), by striking "inactive duty training" and inserting "inactive duty".

(12) Section 433 of title 37, United States Code, is amended—

(A) in subsection (a), by striking "12319" and inserting "12351(g)"; and

(B) in subsection (d), by striking "inactive-duty training" and inserting "inactive duty".

(13) Subsection (a) of section 433a of title 37, United States Code, is amended by striking "12319" and inserting "12351(g)".

(14) Paragraph (1) of section 474(i) of title 37, United States Code, is amended by striking "inactive-duty training" and inserting "inactive duty".

(15) Section 478a of title 37, United States Code, is amended—

(A) in the section heading, by striking "**inactive duty training**" and inserting "**inactive duty**"; and

(B) in subsection (a), by striking "inactive duty training" each place the term appears and inserting "inactive duty".

(16) Paragraph (1) of section 495(a) of title 37, United States Code, is amended by striking "funeral honors duty pursuant to section 12503 of title 10 or section 115 of title 32" and inserting "funeral honors functions pursuant to section 12353(d)(2) of title 10 or section 502(g)(7) of title 32".

(17) The matter preceding paragraph (1) of subsection (a), the matter following paragraph (2) of subsection (a), and subsection (d), of section 552 of title 37, United States Code, are each amended by striking "inactive-duty training" and inserting "inactive duty".

(18) Subparagraph (B) of section 910(b)(2) of title 37, United States Code, is amended by striking "subparagraph (A) or (B) of section 12301(h)(1) of title 10" and inserting "section 12341 of title 10 pursuant to subparagraph (A) or (B) of section 12353(b)(1) of such title".

(n) CONFORMING AMENDMENTS TO TITLE 38, UNITED STATES CODE.—

(1) Section 101 of title 38, United States Code, is amended—

(A) in subparagraph (C) of paragraph (22), by striking "section 316, 502, 503, 504, or 505 of title 32" and inserting "section 502(f) of title 32";

(B) in paragraph (23)—

(i) by striking "inactive duty training" and inserting "inactive duty"; and

(ii) in the matter following paragraph (C), by striking "sections 316, 502, 503, 504, or 505 of title 32" and inserting "section 502(g) of title 32"; and

(C) in the matter preceding clause (i) of paragraph (24)(C), by striking "inactive duty training" and inserting "inactive duty".

(2) Subparagraph (B) and the matter following subparagraph (B) of section 106(d)(1) of title 38, United States Code, are each amended by striking "inactive duty training" and inserting "inactive duty".

(3) Clause (ii) of section 1112(c)(3)(A) of title 38, United States Code, is amended by striking "inactive duty training" and inserting "inactive duty".

(4) Paragraph (2) of section 1302(b) of title 38, United States Code, is amended by striking "inactive duty training" and inserting "inactive duty".

(5) Subparagraph (A) of section 1312(a)(2) of title 38, United States Code, is amended by striking "inactive duty training" and inserting "inactive duty".

(6) Section 1965 of title 38, United States Code, is amended—

(A) in subparagraph (D) of paragraph (2), by striking "sections 316, 502, 503, 504, or 505 of title 32" and inserting "section 502(f) of title 32";

(B) in paragraph (3)—

(i) in the matter preceding subparagraph (A), by striking "inactive duty training" and inserting "inactive duty"; and

(ii) in subparagraph (B), by striking "sections 316, 502, 503, 504, or 505 of title 32" and inserting "section 502(g) of title 32";

(C) in paragraph (4), by striking "inactive duty training" each place the term appears and inserting "inactive duty";

(D) in each of subparagraphs (A) and (B) of paragraph (5), by striking "inactive duty training" and inserting "inactive duty"; and

(E) in subparagraph (C) of paragraph (5), by striking "a mobilization category in the Individual Ready Reserve, as defined in section 12304(i)(1)" and inserting "a mobilization category in the Individual Ready Reserve, as defined in section 12351(i)(2)".

(7) Section 1967 of title 38, United States Code, is amended—

(A) in subsection (a)—

(i) in subparagraph (B) of paragraph (1), by striking "inactive duty training" and inserting "inactive duty"; and

(ii) in subparagraph (B) of paragraph (5), by striking "inactive duty training" and inserting "inactive duty"; and

(B) in subsection (b)—

(i) in each of paragraphs (1) and (2), by striking "inactive duty training" and inserting "inactive duty"; and

(ii) in the matter following paragraph (2), by striking "inactive duty training" and inserting "inactive duty".

(8) Section 1968 of title 38, United States Code, is amended—

(A) in subsection (a)—

(i) in the matter preceding paragraph (1), by striking "inactive duty training" and inserting "inactive duty"; and

(ii) in paragraph (3)—

(I) by striking "inactive duty training" and inserting "inactive duty";

(II) by striking "scheduled training period" and inserting "scheduled period of duty"; and

(III) by striking "such training" each place the term appears and inserting "such duty"; and

(B) in paragraph (2) of subsection (b), by striking "inactive duty training" and inserting "inactive duty".

(9) Paragraph (3) of section 1969(a) of title 38, United States Code, is amended by striking "inactive duty training" and inserting "inactive duty".

(10) Subsection (e) of section 1977 of title 38, United States Code, is amended by striking "inactive duty training" and inserting "inactive duty".

(11) Paragraph (2) of section 2402(a) of title 38, United States Code, is amended by striking "inactive duty training" and inserting "inactive duty".

(12) Paragraph (3) of section 3011(d) of title 38, United States Code, is amended by striking "which an individual in the Selected Reserve was ordered to perform under section 12301, 12302, 12304, 12306, or 12307 of title 10" and inserting "under section 12341 of title 10, which an individual in the Selected Reserve was ordered to perform duty for a purpose specified in section 12351(a), 12351(b), 12351(c), 12351(f), 12353(a), or 12353(b) of title 10 ".

(13) Subparagraph (A) of section 3013(f)(2) of title 38, United States Code, is amended by striking ", 12301(a), 12301(d), 12301(g), 12302, or 12304 of title 10" and inserting "or 12341 of title 10 for a purpose specified in section 12351(a), 12351(b), 12351(c), 12351(f) or 12353(a) of such title".

(14) Subsection (f) of section 3103 of title 38, United States Code, is amended by striking ", 12301(a), 12301(d), 12301(g), 12302, or 12304 of title 10" and inserting "or 12341 of title 10 for a purpose specified in section 12351(a), 12351(b), 12351(c), 12351(f) or 12353(a) of such title".

(15) Paragraph (2) of section 3105(e) of title 38, United States Code, is amended by striking ", 12301(a), 12301(d), 12301(g), 12302, or 12304 of title 10" and inserting

"or 12341 of title 10 for a purpose specified in section 12351(a), 12351(b), 12351(c), 12351(f) or 12353(a) of such title".

(16) Clause (i) of section 3231(a)(5)(B) of title 38, United States Code, is amended by striking ", 12301(a), 12301(d), 12301(g), 12302, or 12304 of title 10" and inserting "or 12341 of title 10 for a purpose specified in section 12351(a), 12351(b), 12351(c), 12351(f) or 12353(a) of such title".

(17) Subparagraph (B) of section 3301(1) of title 38, United States Code, is amended by striking ", 12301(a), 12301(d), 12301(g), 12302, or 12304 of title 10 or" and inserting "or 12341 of title 10 for a purpose specified in section 12351(a), 12351(b), 12351(c), 12351(f) or 12353(a) of such title, or under".

(18) Clause (i) of section 3312(c)(2)(A) of title 38, United States Code, is amended by striking ", 12301(a), 12301(d), 12301(g), 12302, or 12304 of title 10" and inserting "or 12341 of title 10 for a purpose specified in section 12351(a), 12351(b), 12351(c), 12351(f) or 12353(a) of such title".

(19) Clause (i) of section 3511(a)(2)(B) of title 38, United States Code, is amended by striking ", 12301(a), 12301(d), 12301(g), 12302, or 12304 of title 10" and inserting "or 12341 of title 10 for a purpose specified in section 12351(a), 12351(b), 12351(c), 12351(f) or 12353(a) of such title".

(20) Subsection (h) of section 3512 of title 38, United States Code, is amended by striking ", 12301(a), 12301(d), 12301(g), 12302, or 12304 of title 10" and inserting "or 12341 of title 10 for a purpose specified in section 12351(a), 12351(b), 12351(c), 12351(f) or 12353(a) of such title".

(21) Subparagraph (C) of section 4211(4) of title 38, United States Code, is amended by striking "section 12301(a), (d), or (g), 12302, or 12304 of title 10" and inserting "section 12341 of title 10 for a purpose specified in section 12351(a), 12351(b), 12351(c), 12351(f) or 12353(a) of such title".

(22) Section 4303 of title 38, United States Code, is amended—

(A) in paragraph (13)—

(i) by striking "inactive duty training" and inserting "inactive duty"; and

(ii) by striking "funeral honors duty as authorized by section 12503 of title 10 or section 115 of title 32" and inserting "funeral honors functions as provided under section 12353 of title 10 or section 114 of title 32"; and

(B) in paragraphs (16), by striking "inactive duty training" and inserting "inactive duty".

(23) Subsection (c) of section 4312 of title 38, United States Code, is amended—

(A) in paragraph (3), by striking "10147"; and inserting "12352";

(B) in subparagraph (A) of paragraph (4), by striking ", 12301(a), 12301(g), 12302, 12304, or 12305 of title 10" and inserting "or 12341 of title 10 for a purpose specified in section 12351(a), 12351(b), 12351(c), 12351(f) or 12353(a) of such title";

(C) in paragraph (4)—

(i) in subparagraph (C), by striking "12304 of title 10" and inserting "12341 of title 10 for the purpose specified in section 12351(c) of such title";

(ii) in subparagraph (E)—

(I) by inserting "under section 12342 of title 10" after "Federal service"; and

(II) by inserting "for a purpose specified" following "National Guard"; and

(iii) by striking "under" each place the term appears and inserting "in".

(24) Paragraph (1) of section 4316(e) of title 38, United States Code, is amended by striking "funeral honors duty as authorized by section 12503 of title 10 or section 115 of title 32" and inserting "funeral honors functions as provided under section 12353 of title 10 or section 114 of title 32".

(o) CONFORMING AMENDMENTS TO TITLE 42, UNITED STATES CODE.—

(1) Subparagraph (D) of section 202(t)(4) of the Social Security Act (42 U.S.C. 402(t)(4)) is amended—

(A) by striking "or inactive duty training" each place the term appears and inserting "or inactive duty"; and

(B) by striking "on inactive duty training" and inserting "performing inactive duty".

(2) Subsection (l) of section 210 of the Social Security Act (42 U.S.C. 410) is amended—

(A) in subparagraph (B) of paragraph (1), by striking "on inactive duty training" and inserting "performing inactive duty"; and

(B) in paragraph (3), by striking "inactive duty training" each place the term appears and inserting "inactive duty".

(p) CONFORMING AMENDMENTS TO TITLE 50, APPENDIX, UNITED STATES CODE.—

(1) Section 6 of the Military Selective Service Act (50 U.S.C. App. 456) is amended—

(A) in the matter following subsection (c)(2)(A)(iii), by striking "10147" and inserting "12352"; and

(B) in paragraph (1) of subsection (d), by striking "under section 10147" and inserting "pursuant to section 12352".

(2) Paragraph (1) of section 703(a) of the Servicemembers Civil Relief Act (50 U.S.C. App. 593(a)) is amended—

(A) by striking "sections 688, 12301(a), 12301(g), 12302, 12304, 12306, or 12307 of title 10, United States Code," and inserting "section 688 or 12341 of title 10, United States Code, for a purpose specified in section 12306, 12307, 12351(a), 12351(b), 12351(c), or 12351(f) of such title,"; and

(B) by striking "12301(d)" and inserting "12341 for the purpose specified in section 12353(a)".

(q) CLERICAL AMENDMENTS.—

(1) The table of chapters at the beginning of title 32, United States Code, is amended by striking the item relating to chapter 5 and inserting the following new item:

"5. Training and Other Duty ..... 501".

(2) The table of sections at the beginning of—

(A) chapter 61 of title 10, United States Code, is amended—

(i) by striking the item related to section 1204 and inserting the following:

"1204. Members on active duty for 30 days or less or on inactive duty: retirement."; and

(ii) by striking the item relating to section 1206 and inserting the following:

"1206. Members on active duty for 30 days or less or on inactive duty: separation.";

(B) subchapter II of chapter 75 of title 10, United States Code, is amended by striking the item related to section 1475 and inserting the following:

"1475. Death gratuity: death of members on active duty or inactive duty and of certain other persons.";

(C) chapter 1005 of title 10, United States Code, is amended by striking the items relating to sections 10147 and 10148;

(D) chapter 1209 of title 10, United States Code, is amended by striking the items related to such chapter and inserting the following:

"CHAPTER 1209—RESERVE DUTY

"SUBCHAPTER I—ADMINISTRATION OF RESERVE DUTY

"Sec.

"12301. Repealed.

"12302. Repealed.

"12303. Repealed.

"12304. Repealed.

"12304a. Army Reserve, Navy Reserve, Marine Corps Reserve, Air Force Reserve: order to active duty to provide assistance in response to a major disaster or emergency.

''12353. Reserve component: optional duty.";

(E) chapter 1213 of title 10, United States Code, is amended by striking the item relating to section 12503;

(F) chapter 1215 of title 10, United States Code, is amended by striking the item relating to section 12552;

(G) chapter 1217 of title 10, United States Code, is amended by striking the items related to sections 12603 and 12604 and inserting the following:

"12603. Attendance at inactive duty assemblies: commercial travel at Federal supply schedule rates."

"12604. Billeting in Department of Defense facilities: Reserves attending inactive duty.";

(H) chapter 1805 of title 10, United States Code, is amended by striking the item related to section 18505 and inserting the following:

"18505. Reserves traveling for inactive duty: space-required travel on military aircraft.";

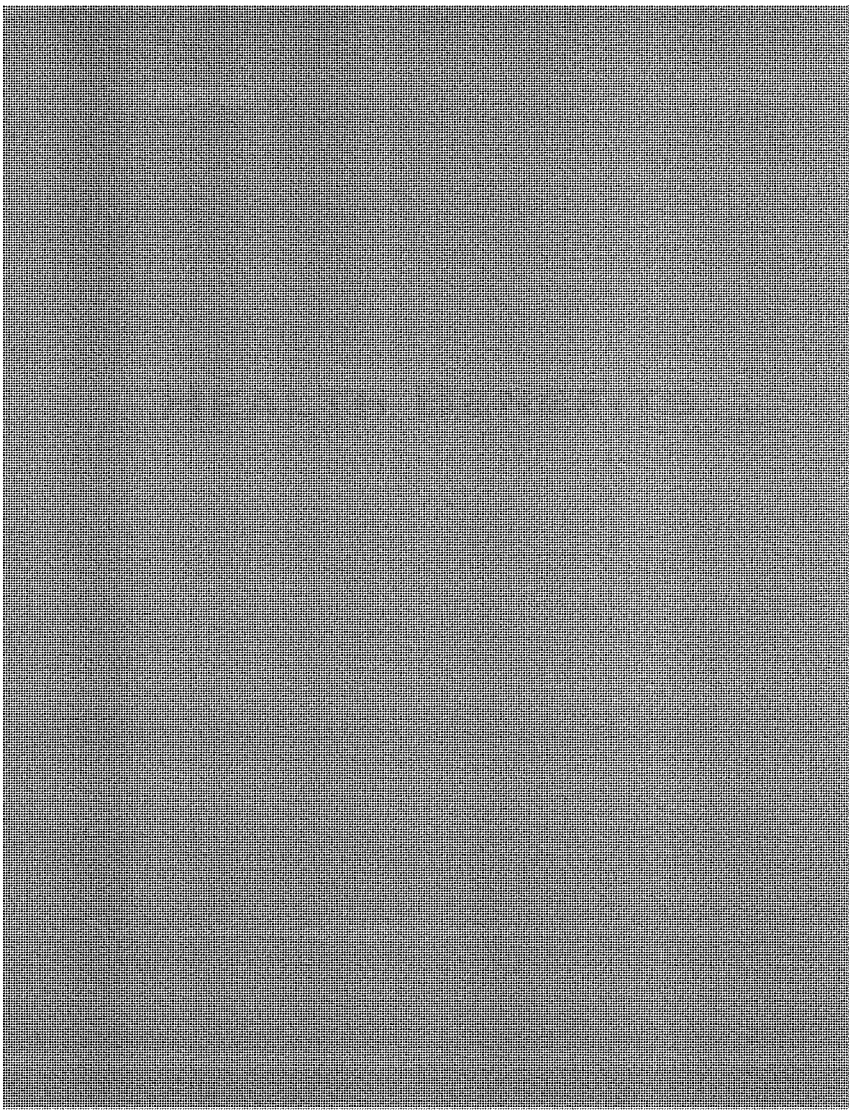
(I) chapter 1 of title 32, United States Code, is amended by striking the item relating to section 115; and

(J) chapter 5 of title 32, United States Code, is amended by striking the item relating to section 502 and inserting the following:

"502. Required Training, Field Exercises, and Other Duty.".

SEC. 402. GENERAL TECHNICAL AMENDMENTS.

Not later than 6 months after the date of the enactment of this Act, the Secretary of Defense shall submit to the Committees on Armed Services of the Senate and House of Representatives a draft of legislation to make any technical and conforming changes to title 10, United States Code, and other provisions of law, that are required or should be made by reason of the amendments made by section 401.



SEC. 501. DIRECTORATE FOR MEDICAL READINESS.

Section 155 of title 10, United States Code, is amended by adding at the end the following new subsection:

"(h) DIRECTORATE FOR MEDICAL READINESS.—The Secretary of Defense, in consultation with the Chairman of the Joint Chiefs of Staff, shall establish within the Joint Staff a Directorate for Medical Readiness to be known as 'J-10'. The Directorate for Medical Readiness shall be headed by a Director for Medical Readiness who shall be responsible for advising the Chairman of the Joint Chiefs of Staff on medical readiness.".

SEC. 502. JOINT READINESS COMMAND.

(a) IN GENERAL.—Chapter 6 of title 10, United States Code, is amended by adding at the end the following new section:

"§ 169. Joint readiness command

"(a) DEFINITION OF READINESS.—In this section the term 'readiness' means the ability to provide and integrate capabilities required by the combatant commands to execute the assigned missions of the combatant commands.

"(b) JOINT READINESS COMMAND ESTABLISHED.—With the advice and assistance of the Chairman of the Joint Chiefs of Staff, the President, through the Secretary of Defense, shall—

"(1) establish under section 161 of this title a unified combatant command for readiness (hereafter in this section referred to as the 'Joint Readiness Command'); and

"(2) provide for the assignment of personnel to the Joint Readiness Command in accordance with section 162 of this title.

"(c) GRADE OF COMMANDER.—The Commander of the Joint Readiness Command shall—

"(1) hold the grade of a 4-star general or admiral while serving in that position; and

"(2) be appointed to that grade by the President, by and with the advice and consent of the Senate.

"(d) AUTHORITY OF COMMANDER.—

"(1) IN GENERAL.—In addition to the authority prescribed in section 164(c) of this title, the Commander of the Joint Readiness Command shall be responsible for, and shall have authority to conduct, all affairs of the Joint Readiness Command relating to joint readiness activities.

"(2) RESPONSIBILITIES.—The Commander of the Joint Readiness Command shall be responsible for the joint readiness of the armed forces, including—

"(A) the integration of the active component and reserve component of the armed forces;

"(B) the mobilization readiness of the reserve component of the armed forces;

"(C) ensuring the joint medical readiness of the armed forces;

"(D) ensuring the readiness of the military medical force; and

"(E) determining joint medical doctrine and requirements.".

(b) CLERICAL AMENDMENT.—The table of sections at the beginning of chapter 6 of title 10, United States Code, is amended by adding at the end the following:

"169. Joint readiness command.".

SEC. 503. JOINT REQUIREMENTS OVERSIGHT COUNCIL.

Paragraph (1) of section 181(d) of title 10, United States Code, is amended—

(1) by redesignating subparagraph (F) as subparagraph (G); and

(2) by inserting after subparagraph (E) the following new subparagraph:

"(F) The Director for Medical Readiness.".

SEC. 504. JOINT MEDICAL READINESS OVERSIGHT COUNCIL.

(a) IN GENERAL.—Chapter 7 of title 10, United States Code, is amended by inserting after section 181 of such title the following new section:

"§ 181a. Joint Medical Readiness Oversight Council

"(a) DEFINITIONS.—In this section:

(1) CORE MISSION AREA.—The term 'core mission area' has the meaning given the term in section 181(g) of this title.

"(2) ESSENTIAL MEDICAL CAPABILITIES.—In this section the term 'essential medical capabilities' has the meaning given the term in section 2931 of this title.

"(2) OVERSIGHT INFORMATION.—The term 'oversight information' means information and materials comprising analysis and justification that are prepared to support a recommendation that is made to, and approved by, the Secretary of Defense.

"(b) ESTABLISHMENT.—There is a Joint Medical Readiness Oversight Council in the Department of Defense (hereafter in this section referred to as the 'Council').

"(c) MISSION.—In addition to other matters assigned to the Council by the President or Secretary of Defense, the Council shall—

"(1) assist the Chairman of the Joint Chiefs of Staff—

"(A) in identifying, assessing, and approving joint medical requirements (including existing systems and equipment) to meet the national military strategy;

"(B) in identifying the core mission area associated with each such requirement; and

"(C) in ensuring that appropriate trade-offs are made among life-cycle cost, schedule, and performance objectives, and procurement quantity objectives, in the establishment and approval of medical requirements in consultation with the advisors specified in subsection (e);

"(2) assist the Chairman in establishing and assigning priority levels for joint medical requirements;

"(3) assist the Chairman, in consultation with the advisors to the Council under subsection (e), in reviewing the estimated level of resources required in the fulfillment of each joint medical requirement and in ensuring that the total cost of such resources is consistent with the level of priority assigned to each such joint medical requirement;

"(4) assist acquisition officials in identifying alternatives to any acquisition program that meet joint medical requirements for the purposes of section 2366a(b), section 2366b(a)(4), and section 2433(e)(2) of this title; and

"(5) assist the Chairman, in consultation with the commanders of the combatant commands and the Under Secretary of Defense for Acquisition, Technology and Logistics, in establishing an objective for the overall period of time within which an initial operational capability should be delivered to meet each joint medical requirement.

"(d) COMPOSITION.—The Council is composed of—

"(1) the Director for Medical Readiness;

"(2) the Surgeons General of the military departments;

"(3) the Medical Officer of the Marine Corps;

"(4) a representative from the Joint Readiness Command; and

"(5) the Combatant Command Surgeons if the Secretary of Defense determines the Combatant Command Surgeons are needed on the Council.

"(e) ADVISORS.—

"(1) IN GENERAL.—The following officials of the Department of Defense shall serve as advisors to the Council on matters within the officials' authority and expertise:

"(A) A representative of the Under Secretary of Defense for Personnel and Readiness.

"(B) A representative of the Under Secretary of Defense for Acquisition, Technology and Logistics.

"(C) A representative of the Under Secretary of Defense (Comptroller) and Chief Financial Officer.

"(D) A representative of the Assistant Secretary of Defense for Health Affairs.

"(E) A representative of the Director of Cost Assessment and Program Evaluation.

"(F) A representative of the Defense Health Agency.

"(G) Such other representatives as the Director for Medical Readiness determines appropriate.

"(2) INPUT.—The Council shall seek and consider input from the commanders of the combatant commands in carrying out the Council's mission under paragraphs (1) and (2) of subsection (c) and in conducting periodic reviews in accordance with the requirements of subsection (f).

"(f) REVIEWS.—The Council shall conduct periodic reviews of joint medical requirements within a core mission area of the Department of Defense. In any such review of a core mission area, the officer or official assigned to lead the review shall have a deputy from a different military department.

"(g) AVAILABILITY OF OVERSIGHT INFORMATION TO CONGRESSIONAL DEFENSE COMMITTEES.—The Secretary of Defense shall ensure that, in the case of a recommendation by the Chairman of the Joint Chiefs of Staff to the Secretary that is approved by the Secretary, oversight information with respect to such recommendation that is produced as a result of the activities of the Council is made available in a timely fashion to the congressional defense committees.".

(b) CLERICAL AMENDMENT.—The table of sections at the beginning of chapter 7 of title 10, United States Code, is amended by inserting after section 181 the following:

"181a. Joint medical readiness oversight council.".

SEC. 505. TREATMENT OF VETERANS AND CIVILIANS AT MILTARY MEDICAL TREATMENT FACILITIES.

(a) IN GENERAL.—Chapter 55 of title 10, United States Code, is amended by adding at the end the following new section:

"§ 1110c. Treatment of veterans and civilians at military medical treatment facilities

"(a) IN GENERAL.—The Secretary concerned may allow a veteran or civilian to be treated at a military medical treatment facility under the jurisdiction of the Secretary concerned if the Secretary concerned determines—

"(1) first, that the treatment is for a class of injury or illness that is necessary to achieve the relevant mix and volume of medical cases required to maintain an essential medical capability; and

"(2) secondly, that the military medical treatment facility has the capacity to treat the class of injury or illness after taking into consideration the availability of space and facilities, and the capabilities of the medical staff.".

(b) CLERICAL AMENDMENT.—The table of sections at the beginning of chapter 55 of title 10, United States Code, is amended by adding at the end the following:

"1110c. Treatment of veterans and civilians at military medical treatment facilities.".

SEC. 506. MILITARY MEDICAL PERSONNEL TRAINING.

(a) IN GENERAL.—Chapter 101 of title 10, United States Code, is amended by adding at the end the following new section:

"§ 2017. Military medical personnel training

"(a) IN GENERAL.—The Secretary of Defense and each Secretary concerned may authorize military medical personnel to train in Department of Veterans Affairs facilities or in civilian facilities in order to maintain essential medical capabilities.

"(b) DEFINITION OF ESSENTIAL MEDICAL CAPABILITIES.—In this section the term 'essential medical capabilities' has the meaning given the term in section 2931 of this title.".

(b) CLERICAL AMENDMENT.—The table of sections at the beginning of chapter 101 of title 10, United States Code, is amended by adding at the end the following:

"2017. Military medical personnel training.".

SEC. 507. MILITARY MEDICAL TREATMENT FACILITIES WORKING-CAPITAL FUNDS.

(a) IN GENERAL.—Chapter 131 of title 10, United States Code, is amended by inserting after section 2208 the following new section:

"§ 2208a. Military medical treatment facilities working-capital funds

"(a) WORKING-CAPITAL FUND ESTABLISHED.—The Secretary of Defense shall establish a working-capital fund for each military department for the operation of military medical treatment facilities under the jurisdiction of the military department. Each such working-capital fund shall be established and operated in a manner similar to the manner working-capital funds are established and operated under section 2208 of this title.

"(b) DEPOSITS.—The following funding shall be deposited into the working capital funds established under subsection (a):

"(1) INITIAL TRANSFER OF FUNDING.—Funds appropriated under the authority of section 507(b) of the _____ Act.

"(2) REVENUE GENERATED FROM THE PROVISION OF MEDICAL SERVICES.—Notwithstanding any other provision of law, any revenue generated from the provision of medical services at military medical treatment facilities, including any payment received from any source.

"(3) FUNDING SHORTFALL RULE.—If the Secretary of the Army, the Secretary of the Navy, or the Secretary of the Air Force determines that the costs of operating military medical treatment facilities for a fiscal year, in a manner which the Secretary of Defense determines is needed to maintain essential medical capabilities, exceed the revenue generated by the delivery of care at the facilities for the fiscal year, then the Secretary of the Army, the Secretary of the Navy, or the Secretary of the Air Force, respectively, shall use any funds available in the operations and maintenance accounts of the Department of

the Army, the Department of the Navy, or the Department of the Air Force, respectively, for the fiscal year to cover the shortfall. Such funds shall be deposited into the working-capital fund of the Department of the Army, the Department of the Navy, or the Department of the Air Force, respectively.

(b) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated for fiscal year 2016 such sums as may be necessary to create and initially operate the military medical treatment facilities working-capital funds established under section 2208a of title 10, United States Code.

(c) CLERICAL AMENDMENT.—The table of sections at the beginning of chapter 131 of title 10, United States Code, is amended by adding at the end the following:

"2208a. Military medical treatment facilities working-capital funds.".

SEC. 508. SUSTAINMENT OF ESSENTIAL MEDICAL CAPABILITIES.

(a) IN GENERAL.—Title 10, United States Code, is amended by inserting after section 2925 of such title the following new chapter:

"CHAPTER 174—SUSTAINMENT OF ESSENTIAL MEDICAL CAPABILITIES

Sec.

"§ 2931. Definitions

"In this chapter:

"(1) ESSENTIAL MEDICAL CAPABILITIES.— The term 'essential medical capabilities' means a limited number of critical medical capabilities that—

"(A) shall be maintained within the military for national security purposes;

"(B) are vital to effective and timely health care during contingency operations; and

"(C) include clinical and logistics capabilities necessary to accomplish operational requirements, such as—

"(i) combat casualty care;

"(ii) medical response to and treatment of injuries sustained from chemical, biological, radiological, nuclear, and explosives incidents;

"(iii) diagnosis and treatment of infectious disease;

"(iv) aerospace medicine;

"(v) undersea medicine; and

"(vi) diagnosis, treatment and rehabilitation of specialized military conditions.

"(2) SPECIALIZED MILITARY CONDITION.—

"(A) IN GENERAL.—The term 'specialized military condition' means an unusual medical condition, incurred as a direct result of military activity, that—

"(i) is particularly associated with military action during a major operation or training exercise;

"(ii) is uncommon in the civilian population; and

"(iii) is one of a limited number of such unusual medical conditions.

"(B) INCLUSIONS.—A specialized medical condition may include an amputation, certain musculoskeletal trauma, a burn, a traumatic brain injury, and post-traumatic stress disorder.

"§ 2932. Group of specialized military conditions established

"(a) GROUP OF SPECIALIZED MILITARY CONDITIONS.—The Secretary of Defense shall establish a group of conditions that meet the definition of specialized military conditions under section 2931.

"(b) CERTAIN EMERGING MEDICAL CONDITIONS.— The group of conditions established under subsection (a) shall evolve to reflect emerging medical conditions that result from changes in warfighting and advancements in the medical field.".

"§ 2933. Responsibilities of the Secretary of Defense

"(a) ESTABLISHMENT OF ESSENTIAL MEDICAL CAPABILITIES.—Not later than 180 days after the date of enactment of the _____ Act and every year thereafter, the Secretary of Defense shall establish essential medical capabilities for the armed forces, taking into consideration the recommendations received under section 2934(a) of this title.

"(b) POLICIES AND STANDARDS.—

"(1) POLICIES.—Not later than 180 days after the date of enactment of the _____ Act and every year thereafter, the Secretary of Defense shall establish policies to maintain essential medical capabilities, including the clinical and logistics elements of the essential medical capabilities.

"(2) STANDARDS.—The policies pertaining to the clinical elements described in paragraph (1) shall include standards for the mix and volume of medical cases required to maintain essential medical capabilities. The standards shall be based on widely accepted metrics of the medical profession and the unique readiness requirements of the military.

"§ 2934. Responsibilities of the Commander of the Joint Readiness Command

"(a) RECOMMENDATIONS.— The Commander of the Joint Readiness Command shall recommend to the Secretary of Defense what constitutes essential medical capabilities.

"(b) COMPLIANCE.—The Commander of the Joint Readiness Command shall monitor, record, and report to the Secretary of Defense regarding each military service's compliance with the policies established under section 2933(b)(1) of this title using information pertaining to personnel, training, materiel and military medical treatment facilities provided by the military services under section 2935(4) of this title.

"§ 2935. Responsibilities of the Secretaries of the Army, Navy and Air Force

"The Secretary of the Army, the Secretary of the Navy, and the Secretary of the Air Force each shall develop the means for complying with the policies and standards described in section 2933(b) of this title, including—

"(1) closely managing—

"(A) the preservation of core capabilities directly required to maintain essential medical capabilities; and

"(B) the actions taken to comply with the policies and standards;

"(2) carefully regulating the manning requirements and personnel fill rates, by medical specialty, that directly fulfill the requirements for each essential medical capability;

"(3) not substituting the medical specialty required for an essential medical capability; and

"(4) submitting to the Joint Readiness Command—

"(A) a description of the capabilities and actions described in paragraphs (1) and (2); and

"(B) information pertaining to personnel, training, materiel and military medical treatment facilities under the jurisdiction of the Secretary of the Army, the Secretary of the Navy, or the Secretary of the Air Force, respectively.

"§ 2936. Annual report to Congress

"(a) IN GENERAL.—The Secretary of Defense shall provide an annual report to Congress that—

"(1) contains the essential medical capabilities established by the Secretary under section 2933(a) of this title for the year the report is submitted;

"(2) documents the ability of the Department of Defense to provide essential medical capabilities during the preceding year, including documentation related to—

"(A) clinical and logistics capabilities; and

"(B) military personnel, training, materiel and military medical treatment facilities;

"(3) describes any year to year changes in the provision of essential medical capabilities; and

"(4) proposes courses of action if the Secretary determines there have been shortfalls in maintaining essential medical capabilities during the preceding year.

"(b) SUBMISSION TIMING.— On or after the first Monday in January but not later than the first Monday in February of each year, the Secretary of Defense shall submit the annual report described in subsection (a) to the congressional defense committees.

"§ 2937. Comptroller General review

"The Comptroller General of the United States shall review each report submitted under section 2936 of this title for completeness and compliance, and shall submit to the congressional defense committees findings and recommendations with respect to the report by not later than 60 days after the date on which the report is submitted to Congress.".

SEC. 601. HEALTH INSURANCE.

(a) AMENDMENT.—Title 10, United States Code, is amended by inserting after chapter 55 the following new chapter:

"CHAPTER 55A—Health Insurance

"§1110g. Definitions

"In this chapter:

'(1) ADMINISTERING SECRETARIES.—The term 'administering Secretaries' has the meaning given the term in section 1072 of this title.

"(2) CHILD.—The term 'child', when used with respect to a member or former member of the uniformed services, means—

"(A) a legitimate child of the member or former member;

"(B) an adopted child of the member or former member;

"(C) a stepchild of the member or former member;

"(D) a person—

"(i) who is placed in the home of the member or former member by a placement agency (recognized by the Secretary of Defense), or by any other source authorized by State or local law to provide adoption placement, in anticipation of the legal adoption of the person by the member or former member; and

"(ii) who otherwise meets the requirements specified in paragraph (4)(D).

"(3) COVERED BENEFICIARY.—The term 'covered beneficiary' means—

"(A) a dependent of a member of the uniformed services;

"(B) a member of the reserve component of the armed forces who is not on active duty for a period of more than 30 days, and the immediate family of such member;

"(C) a member or former member of a uniformed service who is—

"(i) entitled to retired or retainer pay, or equivalent pay; and

"(ii) not entitled to hospital insurance benefits under part A of title XVIII of the Social Security Act (42 U.S.C. 1395c et seq.);

"(D) a dependent of a member or former member described in subparagraph (C);

"(E) Medal of Honor recipients;

"(F) an immediate dependent of a Medal of Honor recipient who meets the requirements of subparagraph (A), (B), (C), or (D) of paragraph (4); and

"(G) a member of the Retired Reserve of a reserve component of the armed forces who is qualified for a non-regular retirement at age 60 under chapter 1223 of this title, but is not age 60, and the immediate family of such member.

"(4) DEPENDENT.—The term 'dependent', when used with respect to a member or former member of the uniformed services, means—

"(A) the spouse of the member or former member;

"(B) the unremarried widow of the member or former member;

"(C) the unremarried widower of the member or former member;

"(D) a child of the member or former member who—

"(i) has not attained the age of 26; or

"(ii) is incapable of self-support because of a mental or physical incapacity that occurs while a dependent of a member or former member under clause (i) and is, or was at the time of the member's or former member's death, in fact dependent on the member or former member for over one-half of the child's support;

"(E) a parent or parent-in-law who is, or was at the time of the member's or former member's death, in fact dependent on the member for over one-half of the parent or parent-in-law's support and residing in the member's household;

"(F) the unremarried former spouse of a member or former member who on the date of the final decree of divorce, dissolution, or annulment, had been married to the member or former member for a period of at least 20 years during which period the member or former member performed at least 20 years of

service which is creditable in determining that member's or former member's eligibility for retired or retainer pay, or equivalent pay;

"(G) a person who is the unremarried former spouse of a member or former member who performed at least 20 years of service which is creditable in determining the member or former member's eligibility for retired or retainer pay, or equivalent pay, and on the date of the final decree of divorce, dissolution, or annulment before April 1, 1985, had been married to the member or former member for a period of at least 20 years, at least 15 of which, but less than 20 of which, were during the period the member or former member performed service creditable in determining the member's or former member's eligibility for retired or retainer pay;

"(H) a person who would qualify as a dependent under subparagraph (G) but for the fact that the date of the final decree of divorce, dissolution, or annulment of the person is on or after April 1, 1985, except that the term does not include the person after the end of the one-year period beginning on the date of that final decree; and

"(I) a person who—

"(i) is placed in the legal custody of the member or former member as a result of an order of a court of competent jurisdiction in the United States (or possession of the United States) for a period of at least 12 consecutive months;

"(ii)(I) has not attained the age of 26; or

"(II) is incapable of self-support because of a mental or physical incapacity that occurred while the person was considered a dependent of the member or former member under this subparagraph pursuant to subclause (I);

"(iii) is dependent on the member or former member for over one-half of the person's support;

"(iv) resides with the member or former member unless separated by the necessity of military service or to receive institutional care as a result of disability or incapacitation or under such other circumstances as the administering Secretary may by regulation prescribe; and

"(v) is not a dependent of a member or a former member under any other subparagraph.

"(5) DIRECTOR.—The term 'Director' means the Director of the Office of Personnel Management.

"(6) HEALTH CARE.—The term 'health care' includes mental health care.

"(7) IMMEDIATE FAMILY.—The term 'immediate family' has the meaning given the term in section 1076d(f) of this title.

"(8) MEDAL OF HONOR RECIPIENT.—The term Medal of Honor recipient means a person who has been awarded a medal of honor under section 3741, 6241, or 8741 of this title or section 491 of title 14.".

"§ 1110h. Health insurance program

"(a) PROGRAM AUTHORIZED.—The Director shall carry out a health insurance program that—

"(1) provides health insurance coverage to covered beneficiaries; and

"(2) includes a variety of health benefits plans that meet the requirements of this chapter;

"(3) offers a sufficient number of health benefits plans in every local geographic area of the United States in order to provide covered beneficiaries with an ample choice of health benefits plans, as determined by the Director; and

"(4) offers a selection of health benefits plans that—

"(A) are broadly representative of the health benefits plans available in the commercial market; and

"(B) do not contain unnecessary restrictions as determined by the Director.

"(b) RECOMMENDATIONS AND DATA.—

"(1) IN GENERAL.—The Secretary of Defense, in consultation with the Secretaries of Homeland Security, Commerce, and Health and Human Services, shall provide recommendations and data to the Director with respect to—

"(A) matters involving military medical treatment facilities;

"(B) matters unique to covered beneficiaries; and

"(C) any other strategic guidance necessary for the Director to administer the program under this chapter for covered beneficiaries.

"(2) IMPLEMENTATION LIMITATION.—The Director shall not implement any recommendation received from the Secretary of Defense under paragraph (1) for a calendar year if the Director determines that the implementation of the recommendation would result in covered beneficiaries receiving less generous health benefits under the health benefits plans offered the covered beneficiaries under this chapter for such year,

than the health benefits commonly available to other individuals and families under the health insurance program under chapter 89 of title 5 for such year.

"§ 1110i. Health benefits plan requirements.

"(a) PLANS.—The Director may contract for or approve a variety of health benefits plans under the program carried out under this chapter. Such plans—

"(1) may vary by type of plan design, covered benefits, geography or price; and

"(2) shall include maximum limitations on out-of-pocket expenses paid by a covered beneficiary for the health care provided under the health benefits plan selected by the covered beneficiary.

"(b) BENEFITS.—

"(1) IN GENERAL.—A health benefits plan under this chapter, at a minimum, shall include the following benefits:

"(A) The health care benefits, other than pharmaceutical and dental benefits, provided under chapter 55 of this title as such chapter was in effect on the date of enactment of the _____ Act.

"(B) The benefits described in section 8904 of title 5, other than pharmaceutical benefits.

"(C) The essential health benefits established under section 1302 of the Patient Protection and Affordable Care Act (42 U.S.C. 18022), other than pharmaceutical and dental benefits.

"(2) SPECIAL RULE FOR PHARMACY AND DENTAL CARE.—The Secretary of Defense shall continue to provide pharmaceutical and dental care to covered beneficiaries in accordance with chapter 55 of this title.

"(c) QUALITY.—The Director shall ensure that each health benefits plan offered under this chapter offers a high degree of quality, as determined by criteria such as—

"(1) access to an ample number of medical providers as determined by the Director;

"(2) ample access to the services provided under the benefits described in subsection (b)(1), including ease of referrals to and prior authorization for health care services (if applicable); and

"(3) rapid inclusion of advancements in medical treatments and technology in the services covered by the health benefits plan.

"(d) SPECIAL RULE RELATING TO MILITARY MEDICAL TREATMENT FACILITIES.—

"(1) IN GENERAL.—Not later than 2 years after the date of enactment of the _____ Act, the Director shall ensure that not less than one health benefits plan offered within the geographic area surrounding a military medical treatment facility shall include, accept, or have a contract with providers associated with the military medical treatment facility if the military medical treatment facility meets the applicable insurance carrier standards.

"(2) GEOGRAPHIC AREA DEFINED.—In this subsection the term 'geographic area', when used with respect to a military medical treatment facility, means the area within 100 miles of the military medical treatment facility.

"(e) AUTHORITY TO ENTER INTO CONTRACTS AND AGREEMENTS WITH, AND RECEIVE PAYMENTS FROM, INSURANCE CARRIERS.—Notwithstanding any other provision of law, the Secretary of Defense or the Secretary's designee—

"(1) may enter into a contract or other agreement with an insurance carrier for health care and related services provided at a military medical treatment facility in accordance with the provisions of this chapter; and

"(2) may receive a payment from an insurance carrier for health care and related services provided at a military medical treatment facility in accordance with the provisions of this chapter.

"§ 1110j. Contracting

"(a) IN GENERAL.—The Director shall carry out contracting authority with insurance carriers pursuant to the health insurance program under this chapter in a manner similar to the manner the Director carries out contacting authority with insurance carriers under section 8902 of title 5, except that—

"(1) each contract under this chapter shall be for a uniform term of at least 1 year, but may be made automatically renewable from term to term in the absence of notice of termination by either party;

"(2) each contract under this chapter shall contain a detailed statement of benefits offered and shall include such maximums, limitations, exclusions, and other definitions of benefits as the Director considers necessary or desirable;

"(3) each contract under this chapter shall not be made, nor shall a health benefits plan be approved, which excludes an individual because of race, sex, health status, or, at the time of the first opportunity to enroll, because of age; and

"(4) the terms of each contract under this chapter which relate to the nature, provision, or extent of coverage or benefits (including payments with respect to benefits) shall supersede and preempt any State or local law, or any regulation issued thereunder.

"(b) FINANCIAL SOLVENCY EVALUATION.—The Director shall perform a thorough evaluation of the financial solvency of each insurance carrier with which the Director enters into a contract under subsection (a).

"§ 1110k. Funding

"(a) IN GENERAL—Funding of health care under this chapter—

"(1) in the case of covered beneficiaries associated with the Department of Defense, shall be made available from the military personnel appropriations of the Department of Defense;

"(2) in the case of covered beneficiaries associated with the Department of Homeland Security, the Department of Commerce, and the Department of Health and Human Services, shall be provided by the Secretary of Homeland Security, the Secretary of Commerce, and the Secretary of Health and Human Services, respectively; and

"(3) in the case of covered beneficiaries, shall be transferred into the Employees Health Benefits Fund established under section 8909 of title 5 (and managed by the Office of Personnel Management), when the Secretary of Defense, the Secretary of Homeland Security, the Secretary of Commerce, and the Secretary of Health and Human Services, as appropriate, determines necessary.

"(b) FUNDS TO REMAIN SEPARATED FROM FEHBP FUNDS.— The funding for health care under this chapter and the funding for health care under chapter 89 of title 5 shall remain separated within the Employees Health Benefits Fund established under section 8909.

"§ 1110l. Availability of basic allowance for health care

"(a) IN GENERAL.—An eligible member shall be entitled to a basic allowance for health care under section 402b of title 37 if the eligible member certifies to the Department of Defense that the eligible member's dependents have obtained health care coverage.

"(b) DEFINITION OF ELIGIBLE MEMBER.—In this section the term 'eligible member' means a member of the uniformed services who—

"(1) is on active duty for a period of more than 30 days; and

"(2) has a dependent.

"§ 1110m. Cost sharing

"(a) COST SHARING REQUIRED.—A covered beneficiary shall pay a premium for coverage under a health benefits plan provided under this chapter.

"(b) AMOUNT.—The premium in effect for coverage under a health benefits plan under this chapter shall be in the amount of—

"(1) in the case of the dependents of a member of the uniformed services who is on active duty for a period of more than 30 days, 28 percent of the annual cost of such coverage;

"(2) in the case of a member of the Selected Reserve of the Ready Reserve of a reserve component of the armed forces who is not on active duty for a period of more than 30 days and the immediate family of such member, 25 percent of the annual cost of such coverage;

"(3) in the case of a member of the Retired Reserve of a reserve component of the armed forces who is qualified for a non-regular retirement at age 60, under chapter 1223 of this title, but is not age 60, and the immediate family of such member, 100 percent of the annual cost of such coverage;

"(4) in the case of a member of a reserve component of the armed forces who is not described in paragraph (2) or (3) and is not on active duty for a period of more than 30 days, a percentage that is greater than 25 percent (as determined by the Secretary of Defense on the basis of the category of the member's service in the reserve component) of the annual cost of such coverage; and

"(5) in the case of a member or former member of a uniformed service who is entitled to retired or retainer pay, or equivalent pay, and who is not entitled to hospital insurance benefits under part A of title XVIII of the Social Security Act (42 U.S.C. 1395c et seq.), 20 percent of the annual cost of such coverage.

"§ 1110n. Assistance for catastrophic and chronic conditions

"(a) PROGRAM AUTHORIZED.—

"(1) IN GENERAL.—The Secretary of Defense is authorized to carry out a program of providing assistance to a member of the armed forces in order to help the member pay the out-of-pocket expenses for a dependent who experiences a high-cost chronic or catastrophic event or illness.

"(2) TAX TREATMENT OF ASSISTANCE.—Assistance received under this section shall be exempt from taxation under the Internal Revenue Code of 1986 (26 U.S.C. 1 et seq.).

"(b) ELIGIBILITY.—The Secretary shall provide assistance under this section only to a member of the armed forces on active duty for a period of more than 30 days who—

"(1) has a dependent who experiences a high-cost chronic or catastrophic event or illness;

"(2) incurs medical expenses that exceed the member's basic allowance for health care; and

"(3) has not paid sufficient out-of-pocket expenses to reach the maximum limitations on out-of-pocket expenses contained in the health benefits plan selected by the member for the dependents of the member.

"(b) AMOUNT OF ASSISTANCE.—The Secretary shall determine the amount of assistance to be provided to members of the armed forces under this section on the basis of the following factors:

"(1) The need of the members for the assistance.

"(2) The number of members applying for the assistance.

"(3) The amount of funds available for the program under this section.

"(c) APPLICATION.—Each member of the armed forces desiring assistance under this section shall submit an application to the Secretary of Defense at such time, in such manner, and accompanied by such information as the Secretary may require.

"§ 1110o. Medal of honor recipients and immediate dependents

"(a) MEDAL OF HONOR RECIPIENTS.—A former member of the armed forces who is a Medal of Honor recipient and who is not otherwise entitled to medical and dental benefits under this chapter or chapter 55 of this title may, upon request, participate in the health insurance program under this chapter in the same manner as if entitled to retired pay.

"(b) IMMEDIATE DEPENDENTS.—A person who is an immediate dependent of a Medal of Honor recipient and who is not otherwise entitled to medical and dental benefits under this chapter or chapter 55 of this title may, upon request, participate in the health insurance program under this chapter in the same manner as if the Medal of Honor recipient were, or (if deceased)

was at the time of death, entitled to retired pay. For purposes of the preceding sentence, an immediate dependent of a Medal of Honor recipient is a dependent of a Medal of Honor recipient who meets the requirements of subparagraph (A), (B), (C), or (D) of section 1110g(4).".

(b) EFFECTIVE DATE.—Unless otherwise specified, subsection (a) and the amendment made by subsection (a) shall take effect 2 years after the date of enactment of this Act.

(c) FUNDING.—Of the amounts appropriated to the Department of Defense for military personnel for fiscal year 2016, $50,000,000 shall be available to carry out section 1110n of title 10, United States Code.

SEC. 602. DEPARTMENT OF DEFENSE HEALTH CARE TRUST FUND.

(a) IN GENERAL.—Chapter 55 of title 10, United States Code, is amended by adding at the end the following new section:

§ 1110c. Department of defense health care benefits trust fund

"(a) TRUST FUND ESTABLISHED.—The Secretary of Defense shall establish and administer a trust fund to be known as the 'Department of Defense Health Care Benefits Trust Fund' (hereafter in this section referred to as the 'Fund'). Amounts in the Fund shall be available for the uses described in subsection (b).

"(b) USES OF TRUST FUNDS.—Amounts in the Fund shall be used to finance—

"(1) health, dental and pharmacy benefits for members of the uniformed services on active duty for a period of more than 30 days;

"(2) pharmacy and dental benefits for dependents of members of the uniformed services on active duty for a period of more than 30 days; and

"(3) pharmacy and dental benefits for members of the armed forces in the reserve component and the immediate family of such members.

"(c) CREDITS TO THE FUND.—There shall be deposited into the Fund the following, which shall constitute the assets of the Fund:

"(1) Any amounts appropriated for the military personnel accounts of the Department of Defense for the uses described in subsection (b).

"(2) Amounts contributed to the Fund under subsection (d).

"(d) AUTHORITY TO ENTER INTO AGREEMENTS.—The Secretary of Defense shall enter into an agreement with each other administering Secretary for participation in the Fund by a uniformed service under the jurisdiction of that Secretary. The agreement shall require that Secretary to determine contributions to the Fund on behalf of the members of the uniformed service under the jurisdiction of that Secretary in a manner comparable to the determination with respect to contributions to the Department of Defense Retiree Health Care Fund made by the Secretary of Defense under section 1115(b) of this title, and such contributions shall be paid into the Fund in the same manner as contributions are paid into the Department of Defense Retiree Health Care Fund under section 1116(a).

"(e) PAYMENTS FROM THE FUND.—

"(1) IN GENERAL.—There shall be paid from the Fund amounts payable for the uses described in subsection (b).

"(2) ASSET AVAILABILITY.—The assets of the Fund are hereby made available for payments under paragraph (1).

"(3) TRANSFERS.—In carrying out paragraph (1), the Secretary of Defense may transfer periodically from the Fund to applicable appropriations of the Department of Defense, or to applicable appropriations of other departments or agencies, such amounts as the Secretary determines necessary to cover the costs chargeable to those

appropriations for the uses described in subsection (b). Such transfers may include amounts necessary for the administration of such uses. Amounts so transferred shall be merged with and be available for the same purposes and for the same time period as the appropriation to which transferred. Upon a determination that all or part of the funds transferred from the Fund are not necessary for the purposes for which transferred, such amounts may be transferred back to the Fund. This transfer authority is in addition to any other transfer authority that may be available to the Secretary.

"(4) SPECIAL RULE.—If the Secretary of Defense enters into an agreement with another administering Secretary pursuant to subsection (d), then the Secretary of Defense may take the actions described in paragraph (3) for the purpose of administering funds for the uses described in subsection (b) on behalf of the other participating uniformed services.

SEC. 603. RETIREE HEALTH CARE FUND.

Chapter 56 of title 10, United States Code, is amended—

(1) in the chapter heading, by striking "**MEDICARE-ELIGIBLE**";

(2) in section 1111—

(A) in subsection (a)—

(i) by striking "Medicare-Eligible"; and

(ii) by striking "medicare-eligible"; and

(B) in subsection (b)—

(i) in paragraph (2), by striking "or 1086(c)(3)" inserting "1086(c)(3), or 1110g(4)";

(ii) by striking paragraph (3); and

(iii) by redesignating paragraphs (4) and (5) as paragraphs (3) and (4), respectively;

(3) in section 1113—

(A) in subsection (a)—

(i) by striking "and are medicare-eligible, and" and inserting "and for the benefit of"; and

(ii) by striking "who are medicare eligible";

(B) in subsection (c), by striking "who are medicare-eligible"; and

(C) in subsection (d), by striking "who are medicare-eligible";

(4) in paragraph (1) section 1114(a), by striking "Medicare-Eligible";

(5) in section 1115—

(A) in subsection (a)—

(i) by striking "(a) The Board" and inserting "(a)(1) The Board"; and

(ii) by adding at the end the following:

"(2)(A) Notwithstanding paragraph (1), the Board shall determine the amount that is the present value (as of the date of enactment of the _____ Act) of future benefits payable from the Fund that are attributable to service performed for non-Medicare eligible retirees before the date of enactment of the _____ Act. That amount is the subsequent unfunded liability of the Fund. The Board shall determine the period of time over which the subsequent unfunded liability should be liquidated and shall determine an amortization schedule for the liquidation of such liability over that period.

Contributions to the Fund for the liquidation of the subsequent unfunded liability in accordance with such schedule shall be made as provided in section 1116 of this title.

"(B) In this paragraph the term 'non-Medicare eligible retiree' means a member or former member described in subparagraph (C) of section 1110g(3) of this title."; and

(B) in paragraph (2) of subsection (c), by striking "medicare-eligible".

SEC. 604. BASIC ALLOWANCE FOR HEALTH CARE.

(a) PAY AND ALLOWANCES OF THE UNIFORMED SERVICES.—

(1) IN GENERAL.—Chapter 7 of title 37, United States Code, is amended by inserting after section 402a the following new section:

"§ 402b. Basic allowance for health care

"(a) DEFINITIONS.—In this section:

"(1) ADMINISTERING SECRETARIES.—The term 'administering Secretaries' has the meaning given the term in section 1072 of title 10, United States Code.

"(2) ELIGIBLE MEMBER.—The term 'eligible member' means a member of the uniformed services who—

"(A) is on active duty for a period of more than 30 days; and

"(B) has a dependent.

"(3) OUT-OF-POCKET EXPENSE.—The term 'out-of-pocket expense' means a copayment, coinsurance, or a deductible.

"(b) ENTITLEMENT TO ALLOWANCE.— Each eligible member is entitled to a basic allowance for health care as set forth in this section.

"(c) AMOUNT OF ALLOWANCE.—

"(1) RATE.—The rate of basic allowance for health care to be in effect for a calendar year shall be equal to the sum of—

"(A) 28 percent of the total premium cost of the benchmark plan determined under paragraph (2) for the calendar year; plus

"(B) the average amount of out-of-pocket expenses for all the dependents of the eligible members in the geographic location (as determined by the Director of the Office of Personnel Management) for the preceding calendar year under the health benefits plans under chapter 55A of title 10.

"(2) DETERMINATION OF BENCHMARK PLAN.—

"(A) IN GENERAL.—The Director of the Office of Personnel Management shall determine the benchmark plan for a calendar year as follows:

"(i) Rank each health benefits plan under chapter 55A of title 10, that is selected in a geographic area by a member of the uniformed services on active duty for a period of more than 30 days, by the total premium cost of the health benefits plan for the calendar year preceding the calendar year for which the determination is made.

"(ii) The benchmark plan is the health benefits plan with the median total premium cost, subject to subparagraph (B).

"(B) SPECIAL RULE.—In the event that the median total premium cost falls between 2 health benefits plans, the health benefits plan with the higher cost shall be the benchmark plan.

"(3) FIRST YEAR SPECIAL RULE.—In determining the rate of the basic allowance for health care for the first calendar year for which the allowance is paid under this

section, the Director of the Office of Personnel Management, in consultation with the administering Secretaries, shall—

"(A) project the likely health benefits plan choices of eligible members and the likely utilization behavior for dependents of eligible members to be served under the health benefits plans; and

"(B) use the projections under subparagraph (A) to determine the basic allowance for health care for such calendar year in accordance with the calculation described in paragraph (1).

"(4) NOTIFICATION.—The Director of the Office of Personnel Management shall notify the administering Secretaries of the amount of the basic allowance for health care for each calendar year.

"(d) PAYMENTS.—

"(1) PAYMENTS FOR HEALTH BENEFITS PLAN PREMIUMS.—

"(A) ELIGIBLE MEMBERS SELECTING A HEALTH BENEFITS PLAN UNDER CHAPTER 55A OF TITLE 10.—The administering Secretaries shall pay into the Employees Health Benefits Fund established under section 8909 of title 5 the basic allowance for health care amount determined under subsection (c)(1)(A) for each eligible member entitled to a basic allowance for health care under this section who selects a health benefits plan for the member's dependents under chapter 55A of title 10.

"(B) ELIGIBLE MEMBERS SELECTING A HEALTH BENEFITS PLAN FROM OTHER SOURCES.—In the case of an eligible member entitled to a basic allowance for health care under this section who selects a health benefits plan

for the member's dependents that is not included in the health insurance program administered by the Director of the Office of Personnel Management under chapter 55A of title 10, the administering Secretaries shall pay the basic allowance for health care amount determined under subsection (c)(1)(A) for the eligible member directly to the administering authority for the health benefits plan.

"(2) PAYMENTS FOR OUT-OF-POCKET EXPENSES.—The administering Secretaries shall pay to each eligible member the basic allowance for health care amount determined under subsection (c)(1)(B) for the eligible member.".

(2) DEFINITION OF REGULAR COMPENSATION OR REGULAR MILITARY COMPENSATION.—Paragraph (25) of section 101 of title 37, United States Code, is amended by inserting ", basic allowance for health care" after "subsistence".

(b) CONFORMING AMENDMENTS TO THE INTERNAL REVENUE CODE OF 1986.—The Internal Revenue Code of 1986 (26 U.S.C. 1 et seq.) is amended—

(1) in paragraph (3) of section 35(f) (26 U.S.C 35(f))—

(A) in subparagraph (A), by striking "or" after "Code,";

(B) in subparagraph (B), by striking the period and inserting ", or"; and

(C) by adding at the end the following new subparagraph:

"(C) is enrolled in a health benefits plan under chapter 55A of title 10.";

(2) in subsection (b) of section 134 (26 U.S.C. 134)), by adding at the end the following new paragraph:

"(7) The term 'qualified military benefit' includes a basic allowance for health care provided under section 1110l of title 10 and section 402b of title 37.";

(3) in clause (iv) of section 5000A(f)(1)(A) (26 U.S.C. 5000A(f)(1)(A)), by inserting "or 55A" after "55";

(4) in subparagraph (E) of section 9801(c)(1) (26 U.S.C. 9801(c)(1)), by inserting "or 55A" after "55"; and

(5) in paragraph (4) of section 9832(c) (26 U.S.C. 9832(c)), by inserting "or 55A" after "55".

SEC. 605. GENERAL TECHNICAL AMENDMENTS.

Not later than 6 months after the date of the enactment of this Act, the Secretary of Defense shall submit to the Committees on Armed Services of the Senate and House of Representatives a draft of legislation to make any technical and conforming changes to title 10, United States Code, and other provisions of law, that are required or should be made by reason of the amendments made by sections 601 through 604.

SEC. 801. UNIFORM FORMULARY.

(a) IN GENERAL.—Paragraph (2) section 1074g(a) of title 10, United States Code, is amended by adding at the end the following new subparagraph:

"(G)(i) The Joint Executive Committee established under section 320 of title 38, United States Code, shall establish a process for determining, and shall determine, classes of drugs that are critical for the transition from military service.

"(ii) The Joint Executive Committee shall—

"(I) review the classes of drugs determined to be critical for the transition from military service, periodically and whenever the Joint Executive Committee determines review is needed;

"(II) create a strategic uniform formulary that includes all drugs determined to be critical for the transition from military service.

"(iii) Not later than 6 months after the date of enactment of the _____ Act, the Joint Executive Committee shall establish, within the strategic uniform formulary described in clause (ii)(II), the pain and psychiatric drugs that are critical for the transition from military service.".

(b) CONFORMING AMENDMENT.—Section 320 of title 38, United States Code, is amended by adding at the end the following new subsection:

"(e) STRATEGIC UNIFORM FORMULARY.—The Committee shall carry out the functions related to determining classes of drugs that are critical to the transition from military service, and to creating a strategic uniform formulary, in accordance with section 1074g(a)(2)(G) of title 10.".

SEC. 802. RESOURCE SHARING AGREEMENTS.

(a) AMENDMENT TO TITLE 10.—Section 1104 of title 10, United States Code, is amended by adding at the end the following:

"(e) RESOURCE SHARING AGREEMENTS.—The Secretary of Defense and the Secretary of Veterans Affairs shall establish—

"(1) categories of resource sharing agreements between the two Departments that the Secretaries determine can be quickly and efficiently implemented by the heads of local medical facilities in a standard manner; and

"(2) standardized model resource sharing agreements for each such category.".

(b) AMENDMENT TO TITLE 38.—Section 8111 of title 38, United States Code, is amended—

(1) by redesignating subsection (g) as subsection (h); and

(2) by inserting after subsection (f) the following new subsection:

"(g) RESOURCE SHARING AGREEMENTS.—The Secretary of Veterans Affairs and the Secretary of Defense shall establish—

(1) categories of resource sharing agreements between the two Departments that the Secretaries determine can be quickly and efficiently implemented by the heads of local medical facilities in a standard manner; and

"(2) standardized model resource sharing agreements for each such category.".

SEC. 803. JOINT EXECUTIVE COMMITTEE.

(a) IN GENERAL.—Section 320 of title 38, United States Code, is amended further by adding after subsection (e) (as added by section 801(b)) the following new subsections:

"(f) HEALTH CARE.—

"(1) COMMON SERVICES DEFINITION.—The Committee shall develop a definition of common services that—

"(A) establishes the services for the provision of health care that—

"(i) routinely will be coordinated between the two Departments; and

"(ii) are applicable across all local markets;

"(B) serves to enhance collaboration between the two Departments with respect to the provision of health care; and

"(C) is evaluated, not less than annually, for consisteney with the strategic plan described in paragraph (2).

"(2) STRATEGIC PLAN.—

"(A) IN GENERAL.—The Committee shall establish a strategic plan, separately or as part of a strategic plan described in section 8111 of this title or section 306 of title 5, for the joint coordination and sharing efforts between the two Departments with respect to the provision of health care.

"(B) CONTENTS.—The strategic plan established under subparagraph (A) shall—

"(i) incorporate the common services definition established under paragraph (1); and

"(ii) ensure the common services are used to provide the strategic direction for the joint coordination and sharing efforts between the two Departments with respect to the provision of health care.

"(3) QUARTERLY REPORT.—The Committee shall prepare and submit to Congress a quarterly report that—

"(A) sets forth the expenditures of the Department of Defense and the Department of Veterans Affairs for common services;

"(B) describes those expenditures for common services that comply with the strategic plan established under paragraph (2); and

"(C) describes those expenditures for common services that were not consistent with the strategic plan established under paragraph (2) and describes the reasons for the inconsistency.

"(g) INTERAGENCY AGREEMENT.

"(1) IN GENERAL.—The Secretary of Defense and the Secretary of Veterans Affairs shall enter into an interagency agreement that—

"(A) establishes a national reimbursement and billing process for health care services which is—

"(i) based on prospective payment with local flexibilities; and

"(ii) reconciled on a quarterly basis; and

"(B) provides, in the case of a referral of an individual for the provision of health care outside a Department of Defense or Department of Veterans Affairs medical facility but within a common market area, that any nonreferring Department of Defense or Department of Veterans Affairs medical facility providing health care in the common market area has a right of first refusal to treat the individual.

"(2) COMMON MARKET AREA DETERMINATION.—The Committee shall determine what constitutes a common market area for purposes of paragraph (1)(B).

"(h) MEDICAL CAPITAL ASSET REVIEW AND APPROVAL REQUIRED.—The Committee shall review and approve or disapprove the acquisition, sustainment, restoration, or modernization of any medical capital asset of the Department of Defense or Department of Veterans Affairs that occurs after the date of enactment of the _____ Act. No funds may be obligated or expended for the acquisition, sustainment, restoration, or modernization of any such medical capital asset until the Committee carries out the review and approves the obligation or expenditure, respectively.".

(b) ANNUAL REPORT.—Paragraph (2) of section 320(c) of title 38, United States Code, is amended by adding at the end the following new sentence: "The annual report shall include—

"(A) the information described in subparagraphs (A) through (C) of subsection (f)(3) for the year for which the report is submitted; and

"(B) a description of the success of the interagency agreement described in subsection (g).".

SEC. 804. ELECTRONIC HEALTH RECORDS.

(a) IN GENERAL.—Not later than 180 days after the date of enactment of the _____ Act, the Secretary of Veterans Affairs and the Secretary of Defense jointly shall establish an electronic health record, within the electronic health record system of the Department of Veterans Affairs and in accordance with section 713 of the National Defense Authorization Act for Fiscal Year 2014, for each—

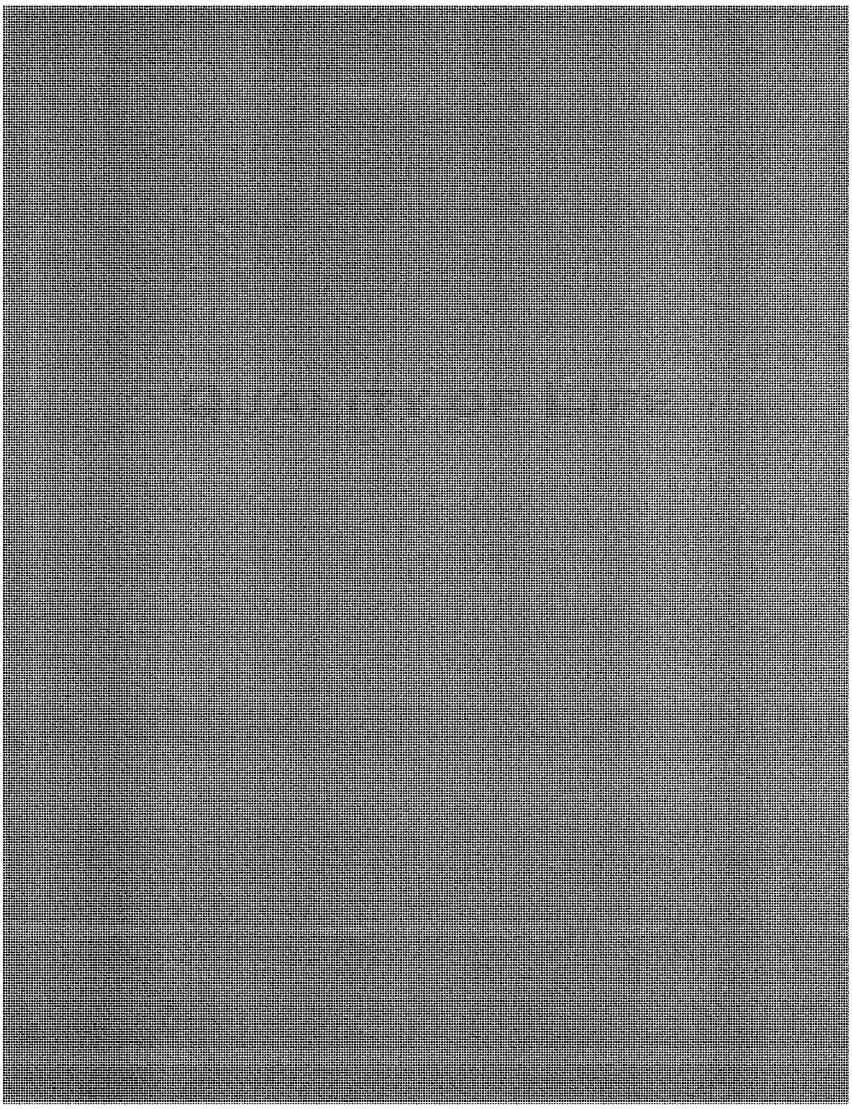
(1) member of the Armed Forces; and

(2) individual who completes a military service specific enlisted or officer accession program.

(b) MONITORING AND REPORTING.—

(1) MONITORING.—The Secretary of Veterans Affairs, in consultation with the Secretary of Defense, shall monitor the number and percentage of members and individuals described in subsection (a) who have an electronic health record in the electronic health record system of the Department of Veterans Affairs.

(2) REPORTING.— The Secretary of Veterans Affairs, in consultation with the Secretary of Defense, shall prepare and annually submit to Congress a report that contains the number and percentage of members and individuals described in subsection (a) who have an electronic heath record in the electronic health record system of the Department of Veterans Affairs.



SEC. 901. DEFINITION OF EMPLOYEE.

Subsection (c) of section 2105 of title 5, United States Code, is amended by striking "Army and" and all that follows through "Guard exchanges" and inserting "defense resale system established under chapter 147 of title 10".

SEC. 902. DEFENSE RESALE SYSTEM.

Section 2481 of title 10, United States Code, is amended to read as follows:

"§ 2481. Defense resale system: existence and purpose

"(a) COMBINED SYSTEM.—

"(1) IN GENERAL.—The Secretary of Defense shall operate, in the manner provided by this chapter and other provisions of law, a world-wide system of commissary stores and exchange stores.

"(2) DEFENSE RESALE SYSTEM.—The world-wide system of commissary stores and exchange stores established under paragraph (1) shall be collectively known as the 'defense resale system'.

"(3) COMBINED OR SEPARATE STORES.—

"(A) IN GENERAL.—Individual commissary and exchange stores may be combined or separate, as dictated by local needs.

"(B) MERCHANDISE PRICING RULE.—Store merchandise described in section 2484(d) that is sold in, at, or by a combined store shall be sold only at the commissary prices described in such section.

"(C) SPECIAL RULE.—In this chapter:

"(i) COMMISSARY STORE.—The term 'commissary store', when used with respect to a combined commissary and exchange store, means that portion of the combined store functioning as a commissary store.

"(ii) EXCHANGE STORE.—The term 'exchange store', when used with respect to a combined commissary and exchange store, means that portion of the combined store functioning as an exchange store.

"(4) PATRONS AND PRICES.—The commissary and exchange stores may sell, at reduced prices, food and other merchandise to members of the uniformed services on active duty, members of the uniformed services entitled to retired pay, dependents of such members, and persons authorized to use the system under chapter 54 of this title.

"(b) PURPOSE OF THE DEFENSE RESALE SYSTEM.—The defense resale system is intended to enhance the quality of life of members of the uniformed services, retired members, and dependents of such members, and to support military readiness, recruitment, and retention.

"(c) DESIGNATION OF A SENIOR OFFICIAL.—The Secretary of Defense shall designate a senior official of the Department of Defense to oversee the policies and appropriated funding of the defense resale system.".

SEC. 903. COMMISSARY STORES: USE OF APPROPRIATED FUNDS TO COVER OPERATING EXPENSES.

Section 2483 of title 10, United States Code, is amended—

(1) by amending subsection (a) to read as follows:

"(a) OPERATION OF DEFENSE RESALE SYSTEM; COMMISSARIES.— Except as otherwise provided in this title, the operation of the defense resale system related to commissaries may be funded using such amounts as are appropriated and available to the Secretary of Defense to

support the defense resale system. The executive governing body established under section 2485(c) shall approve the portion of commissary operating expenses to be funded with appropriated funds.";

(2) in the matter preceding paragraph (1) of subsection (b), by striking the first sentence and inserting the following: "Except as provided in subsection (c), appropriated funds available to the Secretary of Defense to support the defense resale system shall be used to cover the expenses of operating commissary stores and associated central product processing facilities."; and

(3) by amending subsection (c) to read as follows:

"(c) SUPPLEMENTAL FUNDS FOR COMMISSARY OPERATIONS.—Amounts appropriated to cover the expenses of operating the defense resale system and the commissary stores may be supplemented with—

"(1) nonappropriated funds generated by the defense resale system; and

"(2) additional funds from—

"(A) manufacturers' coupon redemption fees; and

"(B) other amounts received as reimbursement for support activities provided by the defense resale system.".

SEC. 904. COMMISSARY STORES: MERCHANDISE THAT MAY BE SOLD; UNIFORM SURCHARGES AND PRICING.

Section 2484 of title 10, United States Code, is amended—

(1) by amending subsection (a) to read as follows:

"(a) IN GENERAL.—As provided in section 2481(a) of this title, commissary stores are intended to be similar to commercial grocery stores, selling merchandise similar to merchandise sold in, at, or by commercial grocery stores.";

(2) by amending subparagraph (b) to read as follows:

"(b) AUTHORITY TO OPERATE CONVENIENCE STORES AND SIMILAR SHOPS.— The defense resale system shall continue to maintain the exclusive right to operate convenience stores, shopettes, and troop stores, including such stores established to support contingency operations.";

(3) by striking subsections (c) and (g);

(4) by redesignating subsections (d), (e), (f) and (h), as subsections (c), (d), (e) and (f), respectively;

(5) in subsection (c) (as redesignated by paragraph (4))—

(A) by striking "subsection (e)" and inserting "subsection (d)"; and

(B) by inserting "in each of the categories established under subsection (d)" after "commissary stores";

(6) in subsection (d) (as redesignated by paragraph (4))—

(A) by striking paragraphs (2) and (3); and

(B) in paragraph (1), by striking "(1) The Secretary" and all that follows through "the item." and inserting the following" The Secretary of Defense shall establish the sales price of each item of merchandise sold in, at, or by commissary stores at the level that will recoup the actual product cost of the item. The sales price shall be established for each item in each of the following categories:

"(A) Meat, poultry, seafood, and fresh-water fish.

"(B) Nonalcoholic beverages.

"(C) Produce.

"(D) Grocery food, whether stored chilled, frozen, or at room temperature.

"(E) Dairy products.

"(F) Bakery and delicatessen items.

"(G) Nonfood grocery items."; and

(7) in subsection (f) (as redesignated by paragraph (4))—

(A) in the matter preceding clause (i) of paragraph (1)(A), by striking "subsection (d)" and inserting "subsection (c)";

(B) by striking paragraph (2);

(C) by redesignating paragraphs (3), (4) and (5) as paragraphs (2), (3) and (4), respectively;

(D) in subparagraph (A) of paragraph (2) (as redesignated by subparagraph (C)), by striking "subsection (d)" and inserting "subsection (c)";

(E) in paragraph (3) (as redesignated by subparagraph (C))—

(i) by striking "subsection (d)" and inserting "subsection (c)"; and

(ii) by striking "paragraph (1), (2), or (3)" and inserting "paragraph (1) or (2)"; and

(F) in paragraph (4) (as redesignated by subparagraph (C))—

(i) in the matter preceding subparagraph (A), by striking "paragraphs (1), (2), and (3)" and inserting "paragraphs (1) and (2)"; and

(ii) by adding at the end the following new subparagraph:

"(F) Sale of any merchandise by defense resale system activities other than commissary merchandise specified in subsection (d) of this section.".

SEC. 905. DEFENSE RESALE SYSTEM OPERATIONS.

Section 2485 of title 10, United States Code, is amended—

(1) in the section heading, by striking "**Commissary stores: operation**" and inserting "**Defense resale system operations**";

(2) in the heading for subsection (a), by inserting "OF COMMISSARIES" after "OPERATION";

(3) by amending subsection (b) to read as follows:

"(b) CONTRACTS WITH OTHER AGENCIES AND INSTRUMENTALITIES.—The defense resale system, and any other agency of the Department of Defense that supports the operation of the defense resale system, may enter into a contract or other agreement with another element of the Department of Defense or with another Federal department, agency, or instrumentality, including a nonappropriated fund instrumentality, to provide or obtain services beneficial to the efficient management and operation of the commissaries. However, the defense resale system may not pay for any such service provided by the United States Transportation Command any amount that exceeds the price at which the service could be procured through full and open competition, as such term is defined in section 107 of title 41.";

(4) by amending subsection (c) to read as follows:

"(c) EXECUTIVE GOVERNING BODY.—

"(1) ESTABLISHMENT.—Notwithstanding section 192(d) of this title, the Secretary of Defense shall establish an executive governing body for the defense resale system, to oversee operations of the defense resale system, including personnel matters.

"(2) MEMBERSHIP.—

"(A) COMPOSITION.—The Secretary of Defense shall appoint the membership of the executive governing body, which shall include five voting members as follows:

"(i) A senior representative from the Army.

"(ii) A senior representative from the Navy.

"(iii) A senior representative from the Air Force.

"(iv) A senior representative from the Marines.

"(v) The Under Secretary of Defense for Personnel and Readiness.

"(B) CHAIRPERSON.—The chairperson of the executive governing body shall rotate annually among the senior representatives from the military services described in clauses (i) through (iv) of subparagraph (A).

"(C) NONVOTING MEMBERS.—The Secretary of Defense shall appoint nonvoting members of the executive governing body, giving priority to appointing persons with experience related to logistics, military personnel, military entitlements, or other experiences of value regarding management of the defense resale system.

"(3) EXECUTIVE DIRECTOR.—The executive governing body shall be headed by an Executive Director who shall be accountable to and report to the executive governing body.";

(5) by amending subsection (d) to read as follows:

"(d) ASSIGNMENT OF ACTIVE DUTY MEMBERS.—

"(1) IN GENERAL.—A limited number of members of the armed forces on active duty may be assigned to the operation of a defense resale system store when the Secretary of Defense determines such assignment is necessary.

"(2) ACTIVE-DUTY LIST.—The Secretary of Defense may assign an officer on the active-duty list to serve as the Executive Director of the defense resale system.";

(6) by striking subsection (g);

(7) by redesignating subsection (h) as subsection (g); and

(8) in subsection (g) (as redesignated by paragraph (7))—

(A) by amending paragraph (2) to read as follows:

"(2) Paragraph (1) applies to the following:

"(A) Information contained in the computerized business systems of the defense resale system, including the following information:

"(i) Data relating to sales of goods or services.

"(ii) Demographic information on customers.

"(iii) Any other information pertaining to defense resale system transactions and operations.

"(B) Business programs, systems, and applications (including software) relating to operations that were developed with funding derived from commissary surcharges."; and

(B) in subparagraph (B) of paragraph (3), by striking "commissary stores" and inserting "the defense resale system".

SEC. 906. CONSOLIDATION OF THE DEFENSE RESALE SYSTEM.

Section 2487 of title 10, United States Code, is amended to read as follows:

"§ 2487. Consolidation of the defense resale system

"(a) CONSOLIDATION OF DEFENSE RESALE SYSTEM.—

"(1) CONSOLIDATION.—The operation and administration of the commissary system and exchange system is consolidated into a single defense resale system, disestablishing the Defense Commissary Agency.

"(2) TIMEFRAME AND MANNER.—Not later than 6 months after the date of enactment of the _____ Act, the Secretary shall establish the defense resale system, in a manner such that the delivery of commissary and exchange services to patrons is neither interrupted nor diminished.

"(3) COMBINED STORES.—The consolidation described in paragraph (1) shall include the authority to operate combined exchange stores and commissary stores.

"(b) ACCESS OF DEFENSE RESALE SYSTEM TO FEDERAL FINANCING BANK.— To facilitate the provision of in-store credit to patrons of defense resale stores while reducing the costs of providing such credit, the defense resale system may issue and sell its obligations to the Federal Financing Bank as provided in section 6 of the Federal Financing Bank Act of 1973 (12 U.S.C. 2285).".

SEC. 907. COMBINED EXCHANGE AND COMMISSARY STORES.

Section 2488 of title 10, United States Code, is repealed.

SEC. 908. OVERSEAS COMMISSARY AND EXCHANGE STORES: ACCESS AND PURCHASE RESTRICTIONS.

Subsection (b) of section 2489 of title 10, United States Code, is amended—

(1) in paragraph (1), by striking " commissary and exchange system" and inserting "defense resale system"; and

(2) in paragraph (2), by striking " commissary and exchange system" and inserting "defense resale system".

SEC. 909. CLERICAL AMENDMENTS AND REFERENCES.

(a) CLERICAL AMENDMENTS.—

(1) The chapter heading for chapter 147 of title 10, United States Code, is amended by striking "**COMMISSARIES AND EXCHANGES**" and inserting "**DEFENSE RESALE SYSTEM**".

(2) The table of subchapters at the beginning of chapter 147 of title 10, United States Code, is amended—

(A) in the item relating to subchapter I, by striking "Commissary and Exchange Systems " and inserting "Resale System"; and

(B) by striking the item relating to subchapter II and inserting the following: "Relationship and Common Policies of the Defense Resale System".

(3) The subchapter heading for subchapter I of chapter 147 of title 10, United States Code, is amended to read as follows:

"SUBCHAPTER I – DEFENSE RESALE SYSTEM".

(4) The subchapter heading for subchapter II of chapter 147 of title 10, United States Code, is amended to read as follows:

"SUBCHAPTER II – RELATIONSHIP AND COMMON POLICIES OF THE DEFENSE RESALE SYSTEM".

(5) The table of sections at the beginning of subchapter (I) of chapter 147 of title 10, United States Code, is amended—

(A) by striking the item relating to section 2481 and inserting the following:

" 2481. Defense resale system; existence and purpose"; and

(B) by striking the item relating to section 2485 and inserting the following:

" 2485. Defense resale system operations"; and

(6) The table of sections at the beginning of subchapter (II) of chapter 147 of title 10, United States Code, is amended—

(A) by striking the item relating to section 2487 and inserting the following:

" 2487. Consolidation of the defense resale system."; and

(B) by striking the item relating to section 2488.

(b) REFERENCES.—

(1) COMMISSARY AND EXCHANGE SYSTEM.—Any reference in law, regulation document, paper or other record of the United States to the commissary and exchange system under chapter 147 of title 10, United States Code, shall be deemed to be a reference to the defense resale system under such chapter.

(2) GOVERNING BOARD.— Any reference in law, regulation document, paper or other record of the United States to the governing board for the commissary system under chapter 147 of title 10, United States Code, shall be deemed to be a reference to the executive governing body of the defense resale system under such chapter.

SEC. 1001. CHILD CARE SERVICES.

Section 2805 of title 10, United States Code, is amended—

(1) by redesignating subsection (e) as subsection (f); and

(2) by inserting after subsection (d) the following:

"(e) CHILD CARE FACILITIES.—(1) The Secretary concerned may obligate and expend, from appropriations available to the Secretary concerned for operation and maintainance, amounts necessary to carry out an unspecified minor military construction project that—

"(A) has an approved cost equal to or less than $15,000,000, notwithstanding subsections (a) and (c); and

"(B) creates, expands, or modifies a child development program facility serving children from birth through 12 years of age.

"(2) For the purpose of carrying out an unspecified minor military construction project described in paragraph (1), subsection (b)(1) shall be applied by substituting "$7,500,000" for "$750,000".

SEC. 1101. MONTGOMERY GI BILL SUNSET.

(a) IN GENERAL.—Chapter 30 of title 38, United States Code, is amended by adding at the end the following new section:

"§ 3037. Sunset provision

"The Secretary shall only award educational assistance under this chapter to eligible individuals who have had a reduction in basic pay for educational assistance under this chapter before October 1, 2015.".

(b) CLERICAL AMENDMENT.—The table of sections at the beginning of such chapter is amended by adding at the end the following:

"3037. Sunset Provision.".

SEC. 1102. RESERVE EDUCATION ASSISTANCE PROGRAM CONTINUING ELIGIBILITY AND SUNSET PROVISION.

(a) IN GENERAL.—Chapter 1607 of title 10, United States Code, is amended by adding after section 16166 the following new section:

"§ 16167. Continuing eligibility and sunset provision

"(a) CONTINUING ELIGIBILITY FOR CERTAIN MEMBERS.— Notwithstanding any other provision of this chapter, for the period beginning on the date of enactment of the _____ Act and ending 4 years after such date of enactment, educational assistance under this chapter shall only be provided to a member who—

"(1) entered service prior to such date of enactment;

"(2) received educational assistance under this chapter for a course of study at an educational institution for the enrollment period at the educational institution that immediately preceded such date of enactment.

"(b) SUNSET PROVISION.—The authority to provide educational assistance under this chapter shall terminate 4 years after the date of enactment of the _____ Act.".

(b) CLERICAL AMENDMENT.—The table of sections at the beginning of such chapter is amended by adding at the end the following:

"16167. Continuing eligibility and sunset provision.".

SEC. 1103. TUITION ASSISTANCE.

Subsection (a) section 2007 of title 10, United States Code, is amended by inserting ", but only if the Secretary determines such education or training is likely to contribute to the member's professional development" after "during the member's off-duty periods".

SEC. 1104. POST-9/11 GI BILL TRANSFERABILITY.

Paragraph (1) of section 3319(b) of title 38, United States Code, is amended—

(1) by striking "six years" and inserting "ten years"; and

(2) by striking "four more" and inserting "two more".

SEC. 1105. SENSE OF CONGRESS REGARDING TRANSFERABILITY OF UNUSED EDUCATION BENEFITS TO FAMILY MEMBERS.

(a) IN GENERAL.—It is the sense of Congress that each Secretary concerned should—

(1) exercise the discretionary authority granted under section 3319(a)(2) of title 10, United States Code, regarding transferability of unused educational benefits to family members, in a manner that encourages retention of individuals in the uniformed services; and

(2) be more selective in permitting such transferability.

(b) DEFINITIONS.—In this section the terms "Secretary concerned" and "uniformed services" have the meanings given the terms in section 101 of title 10, United States Code.

SEC. 1106. REPORT ON EDUCATIONAL ATTAINMENT.

Paragraph (1) of section 3325(b) of title 38, United States Code, is amended—

(1) in subparagraph (B), by striking "and" after the semicolon; and

(2) by adding at the end the following new subparagraph:

"(D) indicating the highest level of education obtained by each individual who transfers an education benefit under section 3319; and".

SEC. 1107. REPORT ON EDUCATIONAL LEVELS OF SERVICE MEMBERS AT SEPARATION.

Section 1142 of title 10, United States Code, is amended by adding at the end the following new subsection:

"(d) REPORT ON EDUCATIONAL LEVELS OF SERVICE MEMBERS AT SEPARATION.— The Secretary concerned shall—

"(1) collect information, at the time of separation, on the highest level of education obtained by each individual who transfers an education benefit under section 3319 of title 38, United States Code; and

"(2) prepare and submit annually to Congress a report that contains the information described in paragraph (1).".

SEC. 1108. TERMINATION OF BAH PAYMENTS FOR DEPENDENTS USING TRANSFERRED EDUCATION BENEFITS.

Paragraph (2) of section 3319(h) of title 38, United States Code, is amended—

(1) in subparagraph (A), by inserting ", except that beginning on July 1, 2017, the spouse shall not receive the monthly housing stipend described in section 3313(c)(1)(B)" before the semicolon; and

(2) in subparagraph (B), by inserting ", except that beginning on July 1, 2017, the child shall not receive the monthly housing stipend described in section 3313(c)(1)(B)" before the semicolon.

SEC. 1109. UNEMPLOYMENT INSURANCE.

Subsection (b) of section 8525 of title 5, United States Code, is amended—

(1) in paragraph (1), by striking "or" after the semicolon;

(2) in paragraph (2), by striking the period and inserting "; or"; and

(3) by adding at the end the following new paragraph:

"(3) an educational assistance allowance under chapter 33 of title 38.".

SEC. 1110. REPORTING ON STUDENT PROGRESS.

(a) IN GENERAL.—Chapter 33 of title 38, United States Code, is amended–

(1) in subsection 3325(c)—

(A) in paragraph (2), by striking "and" after the semicolon;

(B) by redesignating paragraph (3) as paragraph (4); and

(C) by inserting after paragraph (2) (as amended by subparagraph (A)) the following new paragraph:

"(3) the student progress information received under section 3326 of this title; and"; and

(2) by adding at the end the following new section:

"§ 3326. Report on student progress

Each educational institution receiving a payment on behalf of an individual who receives educational assistance under this chapter shall report annually to the Secretary such information regarding the academic progress of the individual as the Secretary may require.".

(b) CLERICAL AMENDMENT.—The table of sections at the beginning of such chapter is amended by adding at the end the following:

"3326. Report on Student Progress.".

SEC. 1201. JOB FAIR PARTICIPATION RATES.

Paragraph (1) of section 136(d) of the Workforce Investment Act of 1998 (29 U.S.C. 2871(d)) is amended by adding at the end the following new sentence: "The report also shall include information, for the year preceding the year the report is submitted, on the number of job fairs attended by one-stop career center employees at which the employees had contact with a veteran, and the number of veterans contacted at each such job fair.".

SEC. 1202. COORDINATION WITH STATE DEPARTMENTS OF LABOR AND VETERANS AFFAIRS.

Section 4103 of title 38, United States Code, is amended by adding at the end the following new subsection:

"(c) COORDINATION WITH STATE DEPARTMENTS OF LABOR AND VETERANS AFFAIRS.—Each Director for Veterans' Employment and Training for a State shall coordinate the Director's activities under this chapter with the State Department of Labor (or the equivalent State department, agency or office) and the State Department of Veterans Affairs (or the equivalent State department, agency or office).".

SEC. 1203. VETERANS UNEMPLOYMENT REVIEW AND REPORT.

(a) REVIEW.—

(1) IN GENERAL.—The Secretary of Labor, in consultation with the Secretary of Defense and the Secretary of Veterans Affairs, shall conduct a review of—

(A) the challenges faced by employers that seek to hire veterans; and

(B) information sharing among Federal departments and agencies that serve veterans and members of the Armed Forces who are separating from service.

(2) MATTERS REVIEWED.—The review shall examine the following:

(A) The barriers employers face in gaining information identifying veterans who are seeking jobs.

(B) The extent and quality of information sharing among Federal departments and agencies that serve veterans and members of the Armed Forces who are separating from service, including how the departments and agencies may more easily connect employers with such veterans and members.

(b) REPORT.—

(1) IN GENERAL.— The Secretary of Labor, in consultation with the Secretary of Defense and the Secretary of Veterans Affairs, shall prepare a report addressing the matters reviewed under subsection (a). The report shall include the following:

(A) Recommendations for addressing the barriers described in subsection (a)(2)(A).

(B) Recommendations for improving information sharing described in subsection (a)(2)(B).

(2) SUBMISSION.—Not later than 120 days after the date of enactment of this Act, the Secretary of Labor shall submit the report to the Committees on Armed Services of the Senate and House of Representatives and the Committees on Veterans Affairs of the Senate and House of Representatives.

SEC. 1204. TRANSITION GPS PROGRAM CORE CURRICULUM REVIEW AND REPORT.

(a) REVIEW.—

(1) IN GENERAL.— The Secretary of Defense, in consultation with the Secretary of Veterans Affairs and the Secretary of Labor, shall conduct a review of the Department of Defense Transition GPS Program Core Curriculum in effect on the date of enactment of the _____ Act.

(2) MATTERS REVIEWED.—The review shall examine the following:

(A) The Department of Defense Transition GPS Program Core Curriculum in effect on the date of enactment of the _____ Act, including an examination of whether the curriculum most accurately addresses the needs of members of the Armed Forces transitioning out of military service.

(B) The roles and responsibilities of each Federal department participating in the Transition GPS Program and whether the various roles and responsibilities of the Federal departments are adequately aligned with one another.

(C) The allotment of time spent on issues under the jurisdiction of each Federal department participating in the Transition GPS Program and whether the allotment is adequate to provide members of the Armed Forces with all the information the members need regarding important benefits that can assist the members in transitioning out of military service.

(D) Whether any of the information in the 3 optional tracks in the Transition GPS Program Core Curriculum should be addressed more appropriately in mandatory tracks rather than optional tracks.

(E) The benefits of and obstacles to establishing—

(i) a standard implementation plan of long-term outcome measures for the Transition GPS Program; and

(ii) a comprehensive system of metrics for such measures.

(b) REPORT.—

(1) IN GENERAL.— The Secretary of Defense, in consultation with the Secretary of Veterans Affairs and the Secretary of Labor, shall prepare a report addressing the matters reviewed under subsection (a). The report shall include the following:

(A) Recommendations for improving the Department of Defense Transition GPS Program Core Curriculum in order to more accurately address the needs of members of the Armed Forces transitioning out of military service.

(B) Recommendations for improving the roles and responsibilities described in subsection (a)(2)(B).

(C) Recommendations for improving the allotment of time described in subsection (a)(2)(C).

(D) Any recommendations regarding the optional and mandatory tracks in the Transition GPS Program Core Curriculum.

(E) Any recommendations with respect to the outcome measures and metrics described in subsection (a)(2)(E).

(F) An identification of any other areas of concern in the Transition GPS Program, and recommendations for addressing the concerns.

(2) SUBMISSION.—Not later than 120 days after the date of enactment of this Act, the Secretary of Defense shall submit the report to the Committees on Armed Services of

the Senate and House of Representatives and the Committees on Veterans Affairs of the Senate and House of Representatives.

SEC. 1301. SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM INFORMATION.

Paragraph (8) of section 11(e) of the Food and Nutrition Act of 2008 (7 U.S.C. 2020(e)) is amended—

(1) in clause (iii) of subparagraph (E), by striking "and" after the semicolon;

(2) in subparagraph (F), by inserting "and" after the semicolon; and

(3) by adding at the end the following new subparagraph:

"(G) the safeguards shall not prevent the use of such information by, or the disclosure of such information to, the Department of Defense for the purposes of determining the number of applicant households that contain one or more members of an active component or reserve component of the Armed Forces;".

SEC. 1302. SUPPLEMENTAL SUBSISTENCE ALLOWANCE.

Subsection (b) of section 402a of title 37, United States Code, is amended by adding at the end the following new paragraph:

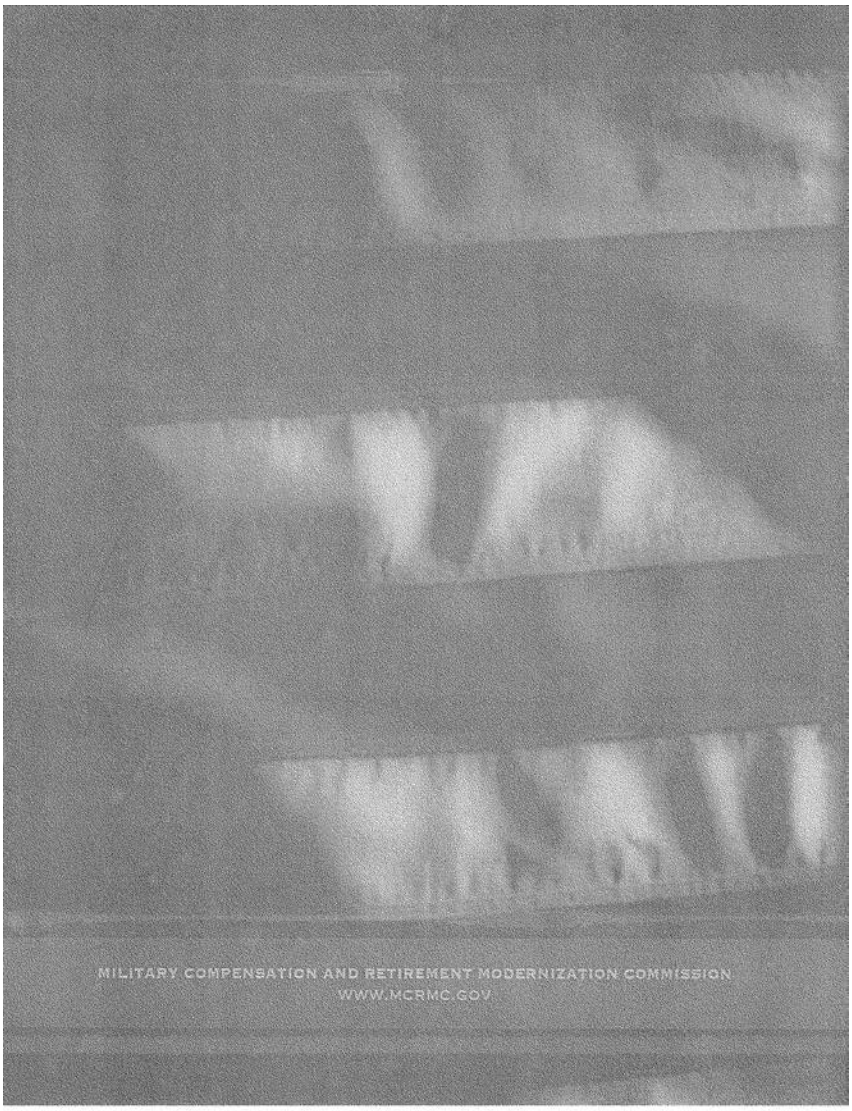
"(4) Notwithstanding any other provision of this section, only members of the armed forces who are serving outside the several States of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the United States Virgin Islands, or Guam may receive a supplemental assistance allowance under this section after September 30, 2016.".

SEC. 1501. NATIONAL MILITARY DEPENDENT STUDENT IDENTIFIER.

Section 1111(b)(3)(C)(xiii) of the Elementary and Secondary Education Act of 1965 (20 U.S.C. 6311(b)(3)(C)(xiii)) is amended—

(1) by striking "and by" and inserting "by"; and

(2) by inserting "and by students whose parent or guardian is an active duty member of the Armed Forces as defined in section 101(a)(4) of title 10, United States Code (further disaggregated by the branch of the Armed Forces in which such parent or guardian serves)," before "except".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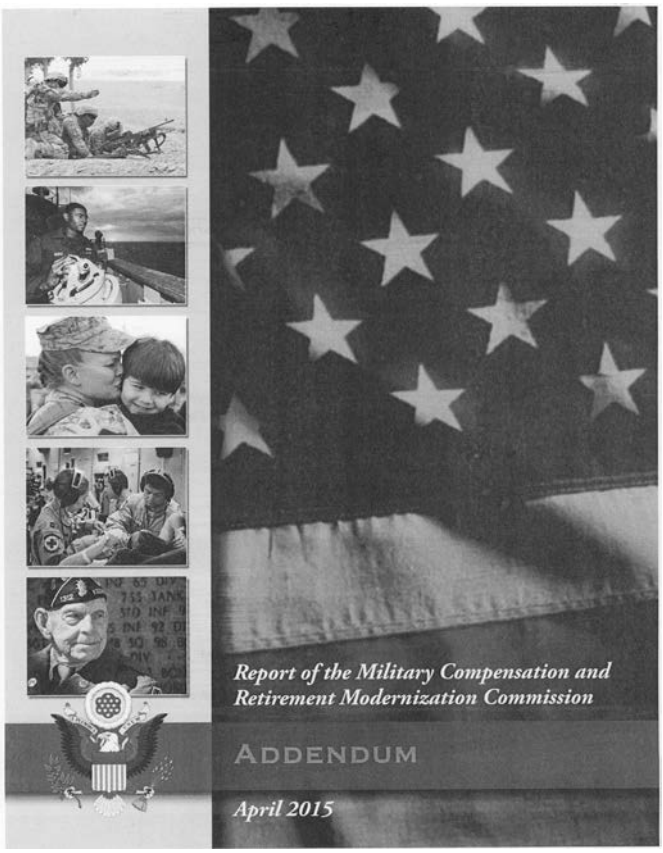
APPENDIX C—ADDENDUM TO THE REPORT OF THE MILITARY COMPENSATION AND RETIREMENT MODERNIZATION COMMISSION



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INTRODUCTION

The Military Compensation and Retirement Modernization Commission was established by the National Defense Authorization Act for FY 2013, as amended by the National Defense Authorization Act for FY 2014, to provide the President of the United States and the Congress specific recommendations to modernize pay and benefits of the Uniformed Services. In addition to the Congressional mandate found in the legislation, the President issued a set of guiding principles to the Commission on September 12, 2013.

The Commission submitted its *Final Report* to the President and the Congress on January 29, 2015. The *Final Report* consisted of the Commission's recommendations for modernization, suggested implementation processes, and associated legislative proposals. On March 30, 2015, the President wrote to the Commission expressing his Administration's support of the underlying objectives of the Commission's 15 recommendations and directing his staff to work with the Commission to adopt or refine the proposals. The Commission commends the Department of Defense and other Federal agencies for their cooperation and willingness to provide additional information to the Commission.

As required by its enabling legislation, the Commission submits the enclosed revised recommendations, implementation processes, and legislative proposals to the President. These revisions include only the language for which the Commission proposes changes to the recommendations, implementation, or legislative sections of the *Report of the Military Compensation and Retirement Modernization Commission: Final Report*. Any recommendations, implementation processes, or legislative proposals not contained herein remain as originally submitted.

RECOMMENDATIONS AND IMPLEMENTATION

RECOMMENDATION 2: PROVIDE MORE OPTIONS FOR SERVICE MEMBERS TO PROTECT THEIR PAY FOR THEIR SURVIVORS BY OFFERING NEW SURVIVOR BENEFIT PLAN COVERAGE WITHOUT DEPENDENCY AND INDEMNITY COMPENSATION OFFSET.

Recommendations (pp. 44-45):

- The existing SBP program should be maintained for Service members who want to elect subsidized coverage that would remain subject to the SBP–DIC offset.

  Revision: The existing SBP program should be maintained for Service members who want to elect subsidized coverage that would remain subject to the SBP–DIC offset (the "basic" SBP program).

- A new SBP program should be implemented for which Service members would fully fund SBP costs, but would no longer be subject to offset by DIC payments. With unsubsidized coverage, Service members' retired pay should be reduced by the full cost of the benefit as determined annually by DoD Office of the Actuary. As an example, based on FY 2013 data, the amount would be 11.25 percent of the base amount elected. The base amount should not exceed 100 percent of the member's retired pay consistent with existing statute. Survivors of the Service members who select unsubsidized coverage would receive full SBP and DIC payments without offset. Although this option has a greater out-of-pocket cost to the Service member, it provides a greater overall benefit.

  Revision: A new SBP program should be implemented through which Service members could elect enhanced SBP coverage that would eliminate offsets resulting from receipt of DIC payments. The current premium and subsidy should remain in effect for the "basic" SBP program. Enhanced SBP coverage should be provided at no cost to surviving spouses of Service members who die, or have died, while serving on active-duty or inactive-duty training. The retired pay of other Service members who elect enhanced SBP coverage should be reduced by the full cost of the enhanced SBP coverage as determined annually by the DoD Office of the Actuary. As an example, based on FY 2013 data, the cost of enhanced coverage would be 4.75 percent of the base amount elected (for a total cost of 11.25 percent when added to the current 6.5 percent premium of the "basic" SBP program). The base amount should not exceed 100 percent of the member's retired pay, consistent with existing statute. Survivors of the Service members who select enhanced coverage would receive full SBP and DIC payments without offset. Although this option has a greater out-of-pocket cost to the Service member, it provides a greater overall benefit.

- Those currently participating in SBP should be provided a one-time opportunity during the SBP open period to opt in to the new program.

  Revision: Those retirees currently participating in SBP should be provided a one-time opportunity during a 1-year SBP open period to opt in to the new program.

Implementation (p. 45):

- SBP is governed by 10 U.S.C. Chapter 73, Subchapter II. 10 U.S.C. § 1452 should be amended to allow for Service members to elect the new SBP option. Service members who make the election will pay an annually determined premium and not be subject to the DIC offset found in 10 U.S.C. § 1450(c). This section should be further amended to require the Secretary of Defense to promulgate regulations allowing a Service member to elect Spouse and Child Coverage or Child-Only Coverage without being subject to the DIC offset found in 10 U.S.C. § 1450(c).

  Revision: SBP is governed by 10 U.S.C. Chapter 73, Subchapter II. 10 U.S.C. § 1452 should be amended to allow for Service members to elect the new enhanced SBP coverage. Service members who make the election will pay an annually determined premium and not be subject to the DIC offset found in 10 U.S.C. § 1450(c). 10 U.S.C. § 1451 should be amended to eliminate the DIC offset for those Service members who die, or have died, while serving on active-duty or inactive-duty training. This section should be further amended to require the Secretary of Defense to promulgate regulations allowing a Service member to elect Spouse and Child Coverage or Child-Only Coverage without being subject to the DIC offset found in 10 U.S.C. § 1450(c).

- *Revision (no original): DoD should pursue legislation that would allow for a 1-year open period for retirees currently participating in SBP to opt in to the new enhanced SBP coverage.*

RECOMMENDATION 3: PROMOTE SERVICE MEMBERS' FINANCIAL LITERACY BY IMPLEMENTING A MORE ROBUST FINANCIAL AND HEALTH BENEFIT TRAINING PROGRAM.

Recommendations (pp. 49-50):

- DoD should increase the frequency and strengthen the content of financial literacy training. At a minimum, training and counseling should be provided during initial training, upon arrival at the first duty station (upon arrival at each duty station for E4/O3 and below), at the vesting point for the TSP program, on dates of promotion (up to pay grades E5 and O4), for major life events (e.g., marriage, divorce, birth of first child, disabling sickness or condition), during leadership and pre- and postdeployment training, at transition points (e.g., AC to RC, separation, and retirement), and upon request of the individual.

  Revision: DoD should increase the frequency and strengthen the content of financial training. At a minimum, training and counseling should be provided to each Service member during initial training orientation or upon arrival at the first

duty station; at least once annually during the first 4 years of service, to include upon vesting in TSP contributions; and upon each permanent change of station move or every 3 years thereafter, whichever is shorter. In addition, training should be provided to each Service member at major life events (e.g., marriage, divorce, birth of first child, disabling illness or condition), at transition points (e.g., AC to RC, separation, and retirement), and upon request of the individual. The Services should issue policy related to financial literacy training during leadership and pre- and postdeployment training.

- Messaging from the Secretary of Defense; Deputy Secretary of Defense; Chairman, Joints Chiefs of Staff; and Service Chiefs should reinforce the importance of financial literacy from both readiness and quality of life perspectives, and emphasize the popularity of similar programs in other countries. The Deputy Secretary of Defense should also be assigned responsibility for ensuring financial literacy training in his or her role as DoD's Chief Management Officer. For example, the Australian Defence Force created a similar literacy program in 2006, and 95 percent of participants indicated the sessions they attended met their needs.[1] Support and messaging from senior leaders was instrumental in the success of the Australian financial literacy program.

  Revision: Messaging from the Secretary of Defense; Deputy Secretary of Defense; Chairman, Joints Chiefs of Staff; and Service Chiefs should reinforce the importance of financial literacy from both readiness and quality of life perspectives, and emphasize the popularity, of similar programs in other countries. For example, the Australian Defence Force created a similar literacy program in 2006, and 95 percent of participants indicated the sessions they attended met their needs.[1] Support and messaging from senior leaders was instrumental in the success of the Australian financial literacy program.

- DoD should require Defense Manpower Data Center (DMDC) to survey the force on the status of financial literacy and preparedness and use the results as a benchmark from which to evaluate and update the training and education as needed. Results of the initial survey and follow-on surveys should be provided to the Congress.

  Revision: DoD should require Defense Manpower Data Center (DMDC) to survey the force on the status of financial literacy and preparedness and use the results as a benchmark from which to evaluate and update the training and education as needed. Results of the initial survey and follow-on surveys should be provided to the Congress, along with other relevant program indicators.

- DoD should provide an online budget planner with archival history capabilities for each Service member. As changes in pay occur (e.g., promotion, arrival at duty station with different BAH rate, dependent status), the budget planner should update automatically and prompt service member to complete it.

  Revision: DoD should provide an online budget planner for use by Service members. Financial literacy training during the first 4 years of service should

[1] Air Commodore Robert Brown, briefing with MCRMC, February 19, 2014.

include use of the budget planner, which should include budget items specific to military compensation (e.g., allowances and bonuses).

- The Leave and Earnings Statement (LES) should be restructured to reflect changes to compensation made as a result of this Commission's recommendations, to include TSP balances (current value and projected value at 20-year point), and also to provide a more accurate accounting by displaying the value of benefits paid by the Government for the Service member (similar to a Federal civilian employee's LES).

  Revision: The Leave and Earnings Statement (LES) should be restructured to reflect changes to compensation made as a result of the Commission's recommendations, to include TSP contributions, and also to provide a more accurate accounting by displaying the value of benefits paid by the Government for the Service member (similar to a Federal civilian employee's LES).

Implementation (pp. 50-51):

- 10 U.S.C. § 992 provides the statutory authority for consumer education programs throughout DoD and should be amended to reflect the program changes described in the recommendation. This section should be amended to provide for changes to the frequency of financial literacy training. The language should, at a minimum, indicate that training will be provided:
  - during initial training;
  - upon arrival at the first duty station;
  - upon arrival at each subsequent duty station for each Service member ranked E4/O3 and below;
  - on date of promotion (up to pay grades E5 and O4);
  - at the vesting point for the TSP program;
  - major life events (e.g., marriage, divorce, birth of first child, and disabling sickness or condition);
  - during leadership training;
  - during pre- and postdeployment training;
  - at transition points (e.g., Active Component to Reserve Component, separation, and retirement); and
  - upon the request of the individual.

  This section should also mandate the Secretary to implement regulations addressing other triggering events when financial literacy training will be mandatory.

Revision: 10 U.S.C. § 992 provides the statutory authority for consumer education programs throughout DoD and should be amended to reflect the program changes described in the recommendation. This section should be amended to provide for changes to the frequency of financial literacy training. The language should, at a minimum, indicate that training will be provided:

- *during initial training orientation or upon arrival at the first duty station;*
- *at least once annually during the first 4 years of service;*
- *upon vesting in the Thrift Savings Plan;*
- *upon each permanent change of station move or every 3 years, whichever is shorter;*
- *upon major life events (e.g., marriage, divorce, birth of first child, and disabling illness or condition);*
- *at transition points (e.g., Active Component to Reserve Component, separation, and retirement); and*
- *upon the request of the individual.*

This section should also mandate the Secretary to implement regulations addressing other triggering events when financial literacy training will be mandatory, including during leadership and pre- and postdeployment training.

- 10 U.S.C. § 992 should be further amended to require DMDC to regularly survey the force on the status of financial literacy and preparedness in its "Status of Force" survey. Legislation should mandate that the Services use the results from this survey as a benchmark to evaluate financial training and to update financial training as necessary. The legislation should mandate that DoD report the results of the initial survey and any follow-on surveys to the Congress.

  Revision: 10 U.S.C. § 992 should be further amended to require DMDC to regularly survey the force on the status of financial literacy and preparedness in its "Status of Forces" survey. Legislation should mandate that the Services use the results from this survey as a benchmark to evaluate financial training and to update financial training as necessary. The legislation should mandate that DoD report the results of the initial survey, along with other indicators of financial literacy and preparedness the Director considers relevant, and any follow-on surveys to the Congress.

- Any other regulations (including the Code of Federal Regulations, if applicable), instructions, directives, or internal policies necessary to conform to the recommendation described above should be reissued, updated, amended, retracted, or otherwise changed as needed. Such as:

  - Volume 8, Chapter 9 of the DoD Financial Management Regulation (FMR) provides the elements required on a Service member's LES. Chapter 9

should be amended to reflect the Service member's Basic Allowance for Health Care, TSP balance, and a more accurate accounting of benefits paid by the Government for the Service member.

- Chapter 9 of the DoD FMR should be further amended to require DoD to provide an online budget planner for Service members that is updated regularly at promotion points and changes in dependency status.

Revision: Any other regulations (including the Code of Federal Regulations, if applicable), instructions, directives, or internal policies necessary to conform to the recommendation described above should be reissued, updated, amended, retracted, or otherwise changed as needed. Such as:

- *Volume 8, Chapter 9 of the DoD Financial Management Regulation (FMR) provides the elements required on a Service member's LES. Chapter 9 should be amended to reflect the Service member's Basic Allowance for Health Care, TSP contributions, and a more accurate accounting of benefits paid by the Government for the Service member.*

- *Chapter 9 of the DoD FMR should be further amended to require DoD to provide an online budget planner for Service members. DoD should be required to provide training for the online budget planner during Service members' first 4 years of service, which should include budget items specific to military compensation (e.g., allowances and bonuses).*

RECOMMENDATION 8: IMPROVE COLLABORATION BETWEEN THE DEPARTMENTS OF DEFENSE AND VETERANS AFFAIRS BY ENFORCING COORDINATION ON ELECTRONIC MEDICAL RECORDS, A UNIFORM FORMULARY FOR TRANSITIONING SERVICE MEMBERS, COMMON SERVICES, AND REIMBURSEMENTS.

Recommendations (pp. 138-139):

- *Revision (no original): The JEC should be composed of the Secretary of Defense and the Secretary of Veterans Affairs, who may delegate JEC responsibilities only to the respective Deputy Secretaries of each Department.*

- The JEC should be granted additional authorities and responsibilities to standardize and enforce collaboration between DoD and VA, including:

  - Approving in advance any new capital assets acquisition, or sustainment, restoration, and modernization of capital assets, or either DoD or VA medical components.

    Revision: Determining whether any planned acquisition of a medical capital asset of either DoD or VA should be accomplished as a joint acquisition.

  - Reporting quarterly to the Congress on DoD and VA expenditures, their consistency with the JEC's strategic plan, and reasons for any inconsistent expenditures.

Revision: Reporting semiannually to the Congress on DoD and VA medical and related expenditures, their consistency with the JEC's strategic plan, and reasons for any inconsistent expenditures.

Implementation (pp. 139-140):

- *Revision (no original): 38 U.S.C. § 320 governs the JEC. 38 U.S.C. § 320 should be amended to provide that the JEC shall be composed of the DoD and VA Secretaries. The Secretaries may not delegate JEC responsibilities to any individual within the Department, with the exception of the Departments' Deputy Secretaries. The Deputy Secretaries may not delegate JEC responsibilities.*

- 38 U.S.C. § 320 governs the JEC. 38 U.S.C. § 320 should be amended to require the JEC to define "common services." "Common services" will be evaluated for coordination between the DOD and VA not less than annually. 38 U.S.C. § 320 should be amended to require quarterly reporting to the Congress on DOD and VA expenditures, their consistency with the JEC's strategic plan, and reasons for any inconsistent expenditures. Language should be added to 38 U.S.C. § 320 to expand JEC authority to require the DOD–VA reimbursement process be executed as an interagency agreement where the JEC ensures successful resolution, which will be included in its annual report to the Congress.

  Revision: 38 U.S.C. § 320 should be amended to require the JEC to define "common services." "Common services" will be evaluated for coordination between the DoD and VA not less than annually. Language should be added to 38 U.S.C. § 320 to expand JEC authority to require the DoD–VA reimbursement process be executed as an interagency agreement for which the JEC ensures successful resolution.

- 10 U.S.C. § 1104 and 38 U.S.C. § 8111 should be amended to make the JEC's review and approval a mandatory step in the acquisition, sustainment, restoration, or modernization of any DOD or VA capital assets. DOD and VA should be prohibited from obligating or expending funds for such acquisition, sustainment, restoration, or modernization until the JEC's review and approval occurs.

  Revision: 38 U.S.C. § 320 should be amended to require the JEC to determine whether any planned medical capital asset acquisition of either DoD or VA should be acquired or used jointly by the departments.

- *Revision (no original): 38 U.S.C. § 320 should be amended to require semiannual reporting to the Congress on: (1) DoD and VA expenditures for common services and the consistency of such expenditures with the JEC's strategic plan; (2) DoD and VA medical capital expenditures and the consistency of such expenditures with the JEC's strategic plan; (3) any determinations made during the preceding year as to whether DoD or VA medical capital assets should be acquired or used jointly; (4) any DoD and VA medical or related expenditures not consistent with the JEC's strategic plan and reasons for the inconsistency; and (5) the successes of the interagency agreements.*

RECOMMENDATION 10: IMPROVE ACCESS TO CHILD CARE ON MILITARY INSTALLATIONS BY ENSURING THE DEPARTMENT OF DEFENSE HAS THE INFORMATION AND BUDGETING TOOLS TO PROVIDE CHILD CARE WITHIN 90 DAYS OF NEED.

Recommendations (pp. 159-160):

- DoD should immediately establish mandatory, standardized monitoring and reporting of child care wait times, disaggregated by age groups, across all types of military child care. This reporting is needed to evaluate performance against the DoD goal of providing care within 90 days of need.

  Revision: DoD should establish mandatory, standardized monitoring and reporting of child care wait times, disaggregated by age groups, across all types of military child care, by December 2016. This reporting is needed to evaluate performance against the DoD goal of providing care within 90 days of need.

- The Secretary should direct that APF and NAF child direct care and professional staff are exempt from future departmental hiring freezes and furloughs.

  Revision: The Secretary should direct that APF and NAF child direct care and professional staff are exempt from future departmental hiring freezes.

Implementation (p. 160):

- Any other regulations (including the Code of Federal Regulations, if applicable), instructions, directives, or internal policies necessary to conform to the recommendation described above should be reissued, updated, amended, retracted, or otherwise changed as needed. Such as:

  - DoD Instruction 6060.02 should be amended to require annual reporting by each installation managing CDPs. The reports should include, by age group and by location, 1) the number of persons on each waiting list at the time of the report; 2) the average length of time spent on the waiting list over the previous year; and 3) the total number of persons over the previous year whose time on the waiting list exceeded DoD's 90-day goal with planned or recommended remediation actions. DoD should implement the changes contained in the proposed rule for Background Checks on Individuals in DoD Child Care Services Programs, published in the Federal Register on October 1, 2014. The Secretary should amend DoD policy to identify APF and NAF child direct care and professional staff as essential personnel and exempt such staff from any and all future hiring freezes and furloughs.

  - DoD should revise its official descriptions of child and youth direct care staff position descriptions for positions CC-2 through CC-5, to more accurately describe the requirements and responsibilities of these positions.

  Revision: Any other regulations (including the Code of Federal Regulations, if applicable), instructions, directives, or internal policies necessary to conform to the recommendation described above should be reissued, updated, amended, retracted, or otherwise changed as needed. Such as:

- *DoD Instruction 6060.02 should be amended to require annual reporting by each installation managing CDPs. The reports should include, by age group and by location, 1) the number of persons on each waiting list at the time of the report; 2) the average length of time spent on the waiting list over the previous year; and 3) the total number of persons over the previous year whose time on the waiting list exceeded DoD's 90-day goal with planned or recommended remediation actions. DoD should implement the changes contained in the proposed rule for Background Checks on Individuals in DoD Child Care Services Programs, published in the Federal Register on October 1, 2014. The Secretary should amend DoD policy to identify APF and NAF child direct care and professional staff as essential personnel and exempt such staff from any and all future hiring freezes.*

- *DoD should revise its official child and youth direct care staff position descriptions for the positions CY-2 through CY-5, to more accurately describe the requirements and responsibilities of these positions.*

RECOMMENDATION 11: SAFEGUARD EDUCATION BENEFITS FOR SERVICE MEMBERS BY REDUCING REDUNDANCY AND ENSURING THE FISCAL SUSTAINABILITY OF EDUCATION PROGRAMS.

Recommendations (pp. 169-170):

- DoD should track the education levels of Service members leaving the Service, as well as the education levels of Service members who transfer their Post-9/11 GI Bill to their dependents.

  Revision: DoD should document and track the education levels of Service members at entry and at various points during the course of their careers, including for Service members who transfer their Post-9/11 GI Bill benefits to their dependents.

Implementation (pp. 170-172):

Tuition Assistance:

- Require TA to be used for "professional development" courses only: 10 U.S.C. Chapter 101 governs general military training, including TA. 10 U.S.C. § 2007 should be amended to limit TA payments to courses designated as providing "professional development" by the Secretary or his designee.

  Revision: Delete the entire bullet.

Post-9/11 GI Bill Transferability:

- Require report on educational attainment of Service members who transfer their education benefit: 38 U.S.C. § 3325 should be amended to require reporting of information of the highest level of education obtained by individuals transferring their Post-9/11 GI Bill benefits.

  Revision: DoD should document and track the information necessary to report the highest level of education obtained by individuals transferring their Post-9/11 GI Bill benefits. This information should be provided to the Congress annually.

- Require report on education levels of Service members at separation: 10 U.S.C. § 1142 should be amended to require that information be obtained at time of separation, on the highest level of education attained by a Service member prior to separating from military service, and that the education levels of separating Service members be reported annually to the Congress.

  Revision: DoD should document and track the information necessary to report on the highest level of education attained by Service members prior to separating from military service. This information should be provided to the Congress annually.

Unemployment Compensation:

- Unemployment compensation: 5 U.S.C. Chapter 85 governs the unemployment insurance program, and Subchapter II of that chapter governs unemployment insurance for ex-Service members. 5 U.S.C. § 8525 should be amended to prevent individuals receiving Post-9/11 GI Bill benefits from simultaneously receiving unemployment benefits.

  Revision: Unemployment compensation: 5 U.S.C. Chapter 85 governs the unemployment insurance program, and Subchapter II of that chapter governs unemployment insurance for ex-Service members. 5 U.S.C. § 8525 should be amended to prevent individuals receiving housing stipend benefits under the Post-9/11 GI Bill from simultaneously receiving unemployment benefits.

RECOMMENDATION 12: BETTER PREPARE SERVICE MEMBERS FOR TRANSITION TO CIVILIAN LIFE BY EXPANDING EDUCATION AND GRANTING STATES MORE FLEXIBILITY TO ADMINISTER THE JOBS FOR VETERANS STATE GRANTS PROGRAM.

Recommendations (pp. 177-178):

- DoD should require mandatory participation in the Transition GPS education track for those planning to attend school after separation or those who have transferred their Post-9/11 GI Bill benefits. This track is currently an optional portion of the program. DoD should ensure these classes provide vital information regarding education benefits for Service members during the education track such as information regarding types of institutions of higher learning, tuition and fees, admission requirements, accreditation, transferability of credits, credit for qualifying military training, time required to complete a degree, and retention and job placement rates; information that addresses important questions that veterans should consider when choosing an institution of higher learning; and information about the Postsecondary Education Complaint System.[2]

[2] In January 2014, agency partners including the Departments of Veterans Affairs, Education and Defense launched online feedback tools that provide a centralized system for filing student complaints. Military and veteran students and their family members are able to submit feedback on their experiences with education institutions. The online complaint system empowers students to be more active in fulfilling their own education goals and positively influencing the decision of others looking for an institution to attend in the future. Students are encouraged to report on their experiences regarding the quality of instruction, recruiting practices, and post-graduation employment placement. "Postsecondary Education Complaint System Launches—January, 2014," Military One Source, accessed December 22,

Revision: DoD should require mandatory participation in the Transition GPS education track for those planning to attend school after separation or those who have transferred their Post-9/11 GI Bill benefits. This track is currently an optional portion of the program. DoD should ensure these classes provide vital information regarding education benefits for Service members during the education track, such as information regarding types of institutions of higher learning, tuition and fees, admission requirements, accreditation, transferability of credits, credit for qualifying military training, time required to complete a degree, and retention and job placement rates; information that addresses important questions that veterans should consider when choosing an institution of higher learning; and information about the Postsecondary Education Complaint System.[2] Exceptions to this policy should be approved by the Secretary of Defense.

Implementation (pp. 178-179):

- Any other regulations (including the Code of Federal Regulations, if applicable), instructions, directives, or internal policies necessary to conform to the recommendation described above should be reissued, updated, amended, retracted, or otherwise changed as needed. Such as the following:

  - DoD DTM-12-007 should be changed to provide more information about education assistance available to separating Service members, and to make the education track of Transition GPS mandatory for those planning to attend school after separation or those who have transferred their Post-9/11 GI Bill benefits.

  Revision: Any other regulations (including the Code of Federal Regulations, if applicable), instructions, directives, or internal policies necessary to conform to the recommendation described above should be reissued, updated, amended, retracted, or otherwise changed as needed. Such as the following:

  - *DoD DTM-12-007 should be changed to provide more information about education assistance available to separating Service members, and to make the education track of Transition GPS mandatory for those planning to attend school after separation or those who have transferred their Post-9/11 GI Bill benefits. Exceptions to this policy should be approved by the Secretary of Defense.*

RECOMMENDATION 13: ENSURE SERVICE MEMBERS RECEIVE FINANCIAL ASSISTANCE TO COVER NUTRITIONAL NEEDS BY PROVIDING THEM COST-EFFECTIVE SUPPLEMENTAL BENEFITS.

Recommendations (pp. 187-188):

- Based on the unavailability of data on Service member households using SNAP, states and counties should provide this data to DoD on a regular basis. DoD

2014, http://www.militaryonesource.mil/voluntary-education?content_id=272426. For more information regarding the Postsecondary Education Complaint System please visit: "Post Secondary Education Complaint System," Military One Source, accessed December 22, 2014, http://www.militaryonesource.mil/voluntary-education?content_id=274604.

should analyze the data to determine if there are systemic issues related to location or pay that should be rectified to provide for adequate nutrition for Service member households.

Revision: Based on the unavailability of data on Service member households using SNAP, USDA should provide an annual report to DoD detailing Service member household use of SNAP benefits. DoD should analyze the data to determine if there are systemic issues related to location or pay that should be rectified to provide for adequate nutrition for Service member households.

Implementation (p. 188):

- 7 U.S.C. Chapter 51 governs the SNAP program, including the administrative and data-sharing provisions of the program. 7 U.S.C. § 2020 should be amended to permit states to disclose information, upon request, to DoD on the number of households in the state which receive SNAP benefits and contain one or more active-duty or RC Service member.

  Revision: 7 U.S.C. Chapter 51 governs the SNAP program, including the administrative and data-sharing provisions of the program. 7 U.S.C. § 2020 should be amended to permit the disclosure of information to DoD of Service member use of SNAP benefits. USDA shall report this information annually to DoD.

RECOMMENDATION 15: MEASURE HOW THE CHALLENGES OF MILITARY LIFE AFFECT CHILDREN'S SCHOOL WORK BY REPORTING ON MILITARY-CONNECTED STUDENTS.

Recommendation (p. 195):

- A national military dependent student identifier should be implemented by requiring school data systems and processes that serve as sources for ESEA reporting to identify students who have parents or guardians who are active-duty members of the Uniformed Services. This identifier would enable consistent reporting on the attendance and academic performance of military dependent students across the United States, a capability that is not available today. This identifier should create a report-only subgroup in ESEA data sets and should also identify the branch (es) of the Uniformed Services for the active-duty parent(s) or guardian(s) of the military dependent student.

  Revision: Annual state report cards should include academic information disaggregated by status as connected to the military. Information on military-connected students who have parents or guardians in the Active or Reserve Components of the Armed Forces should be collected as a report-only subgroup of ESEA reporting. This should be done in a standardized way across all states and provide the ability to distinguish between Active and Reserve Components. This will enable consistent reporting on the attendance and academic performance of these students, a capability that is not uniformly available today.

Implementation (pp. 195-196):

- 20 U.S.C. § 6311 should be amended to add students with at least one parent or guardian who is an active-duty member of the Armed Services (further disaggregated by branch of Service) to the categories of data required for reporting under the Elementary and Secondary Education Act.

  Revision: Title 20 of the U.S. Code should be amended to provide that annual state report cards should include academic information disaggregated by status as connected to the military. Information on military-connected students who have parents or guardians in the Active or Reserve Components of the Armed Forces should be collected as a report-only subgroup of the Elementary and Secondary Education Act (ESEA) reporting. This should be done in a standardized way across all states and provide the ability to distinguish between Active and Reserve Components. This will enable consistent reporting on the attendance and academic performance of these students, a capability that is not uniformly available today.

LEGISLATIVE PROPOSALS

SEC. 201. DIC OFFSET FOR CERTAIN SURVIVING SPOUSES.

(a) IN GENERAL.—Section 1451(c)(2) of title 10, United States Code, is amended to read as follows:

"(2) DIC OFFSET.—

"(A) SURVIVORS OF MEMBERS WHO DIE ON ACTIVE DUTY.—An annuity provided under section 1448(d) that is computed under paragraph (1) and paid to a surviving spouse shall not be reduced by the amount of dependency and indemnity compensation to which the surviving spouse is entitled under section 1311(a) of title 38.

"(B) SURVIVORS OF PERSONS DYING WHEN OR BEFORE ELIGIBLE TO ELECT RESERVE-COMPONENT ANNUITY.—

"(i) SURVIVORS OF PERSONS DYING WHILE ON INACTIVE DUTY TRAINING.—An annuity provided under section 1448(f) on behalf of a person dying while on inactive duty training that is computed under paragraph (1) and paid to a surviving spouse shall not be reduced by the amount of dependency and indemnity compensation to which the surviving spouse is entitled under section 1311(a) of title 38.

"(ii) OTHER SURVIVORS.—An annuity provided under section 1448(f), on behalf of a person who is described in section 1448(f)(1) and not described in clause (i), that is computed under paragraph (1) and paid to a surviving spouse, shall be reduced by the amount of dependency and indemnity compensation to which the surviving spouse is entitled under section 1311(a) of title 38.".

(b) EFFECTIVE DATE.—Subsection (a) and the amendment made by subsection (a) shall be effective on the date of enactment of this Act with respect to annuity payments made on or after such date.

SEC. 202. INCREASED SERVICE MEMBER CHOICE IN SURVIVOR BENEFIT PLAN.

(a) REDUCTION ELECTION. — Section 1452(a) of title 10, United States Code, is amended—

(1) in paragraph (1), by adding at the end the following:

"(C) ENHANCED SBP OPTION.—

"(i) IN GENERAL.— Notwithstanding subparagraph (A), in the case of a person who separates from a uniform service on or after March 1, 2015, and who is entitled to retired pay under this title, the reduction under that subparagraph, at the election of the person, shall be in an amount equal to—

"(I) the percent of the base amount determined under that subparagraph for the person; or

"(II) the enhanced percentage, determined in accordance with clause (iii), of the base amount.

"(ii) NO OFFSET.—In the case of a person who makes the percentage reduction election under clause (i)(II), the amount of any annuity paid to a surviving spouse or former spouse shall be calculated without applying the offset described in section 1450(c).

"(iii) ENHANCED PERCENTAGE. —

"(I) IN GENERAL. —The enhanced percentage is the sum of—

"(aa) the percent of the base amount determined under subparagraph (A) for the person; plus

"(bb) an additional percentage determined in accordance with subclauses (II) and (III).

"(II) ADDITIONAL PERCENTAGE.—The additional percentage referred to in subclause (I)(bb) is the difference between—

"(aa) the percent of the base amount needed to be charged all individuals, in the aggregate, who make the percentage reduction election under clause (i)(II), in order to pay the cost of the survivor benefit program, calculated before reducing the annuities of such individuals by the offset described in section 1450(c); minus

"(bb) the percent of the base amount needed to be charged all such individuals, in the aggregate, in order to pay such cost, calculated after reducing the annuities of such individuals by such offset.

"(III) ACTUARIAL PRINCIPLES AND PRACTICES. —The Secretary of Defense shall calculate the additional percentage described in subclause (II) in accordance with generally accepted actuarial principles and practices."; and

(2) in paragraph (2), by adding at the end the following new sentence: "Such regulations shall provide a participant in the Plan with an election for a reduction calculated without applying the offset described in section 1450(c).".

(b) CHILD ONLY ANNUITIES.—Paragraph (1) of section 1452(b) of title 10, United States Code, is amended by adding at the end the following new sentence: "Such regulations shall provide a participant in the Plan with an election for a reduction calculated without applying the offset described in section 1450(c).".

(c) REGULATIONS.—Section 1452 of title 10, United States Code, is amended further by adding at the end the following new subsection:

"(k) LUMP SUM PAYMENT REGULATIONS.—Notwithstanding any other provision of this section, the Secretary of Defense shall promulgate regulations establishing the amount of the premium that will be paid under this section by a participant in the Plan who elects to receive a lump sum payment under section 1415 of this title.".

(d) PROVISION OF A DETAILED SBP ANALYSIS AT RETIREMENT.—Section 1452 of title 10, United States Code, is amended further by adding after subsection (k) (as added by subsection (c)) the following new subsection:

"(l) PROVISION OF A DETAILED SBP ANALYSIS AT RETIREMENT.—The Secretary concerned shall provide each retiring member of the uniformed services and the spouse of the member an individualized, detailed analysis of the costs and benefits to the member and spouse of the Plan option selected by the member, including providing an analysis of the costs and benefits of not participating in the Plan.".

SEC. 301. IMPROVING FINANCIAL LITERACY AND PREPAREDNESS.

(a) IN GENERAL.—Section 992 of title 10, United States Code, is amended—

(1) in the section heading, by striking "CONSUMER EDUCATION" and inserting "FINANCIAL LITERACY TRAINING";

(2) in subsection (a)—

(A) in the subsection heading, by striking "CONSUMER EDUCATION" and inserting "FINANCIAL LITERACY TRAINING";

(B) in the matter preceding subparagraph (A) of paragraph (1), by striking "education" and inserting "financial literacy training";

(C) by amending paragraph (2) to read as follows:

"(2) Training under this subsection shall be provided to members—

"(A) as a component of a member's initial entry orientation training or upon arrival at a member's first duty station;

"(B) not less than annually during the first 4 years of a member's service;

"(C) when a member vests in the Thrift Savings Plan (TSP);

"(D) at each permanent change of station (PCS) that occurs after a member's fourth year of service, or not less than once every 3 years after such fourth year, whichever occurs more frequently;

"(E) at each major life event during a member's service, such as—

"(i) marriage;

"(ii) divorce;

"(iii) birth of first child; or

"(iv) disabling illness or condition;

"(F) at transition points in service, such as—

"(i) transition from an active component to a reserve component;

"(ii) separation from service; or

"(iii) retirement; and

"(G) upon request of a member;";

(D) in paragraph (3), by striking "paragraph (2)(B)" and inserting "paragraph (2)"; and

(E) by adding at the end the following new paragraph:

"(4) The Secretary concerned shall promulgate and implement regulations setting forth any additional events and circumstances (other than those described in paragraph (2)) for which the Secretary determines that training under this section shall be required, including during leadership training, during pre-deployment training, and during post-deployment training.";

(3) by redesignating subsection (d) as subsection (e);

(4) by inserting after subsection (c) the following new subsection:

"(d) FINANCIAL LITERACY AND PREPAREDNESS SURVEY.—(1) The Director of the Defense Manpower Data Center shall annually include, in the status of forces survey, a survey of the status of the financial literacy and preparedness of members of the armed forces.

"(2) The results of the annual financial literacy and preparedness survey—

"(A) shall be used by each of the Secretaries concerned as a benchmark to evaluate and update training provided under this section; and

"(B) shall be reported, along with other indicators of financial literacy and preparedness the Director considers relevant, annually to the Committee on Armed Services of the Senate and the Committee on Armed Services of the House of Representatives."; and

(5) by adding at the end of subsection (e) (as redesignated by paragraph (3)) the following new paragraph:

"(4) Health insurance, budget management, Thrift Savings Plan (TSP), retirement lump sum payments (including rollover options and tax consequences), and Survivor Benefit Plan (SBP) .".

(b) CLERICAL AMENDMENT.—The table of contents at the beginning of chapter 50 of title 10, United States Code, is amended by striking the item related to section 992 and inserting the following:

"992. Financial Literacy Training: Financial Services.".

SEC. 302. FINANCIAL LITERACY TRAINING FOR MEMBERS OF THE UNIFORMED SERVICES.

(a) IN GENERAL.—The Secretary concerned shall provide the financial literacy training under section 992 of title 10, United States Code, for the financial services described in paragraph (4) of section 992(e) of such title (as added by section 301(a)(5)), to members of the uniformed services not later than 6 months after the date of enactment of the _____ Act.

(b) DEFINITIONS.—In this section:

(1) SECRETARY CONCERNED.—The term 'Secretary concerned' has the meaning given the term in section 101 of title 10, United States Code.

(2) UNIFORMED SERVICES.—The term "uniformed services" has the meaning given the term in section 101 of title 10, United States Code.

SEC. 303. SENSE OF CONGRESS REGARDING FINANCIAL LITERACY AND PREPAREDNESS.

It is the sense of Congress that—

(1) the Secretary of Defense should strengthen arrangements with other Federal departments and agencies, as well as with nonprofit organizations, in order to improve the financial literacy and preparedness of members of the Armed Forces; and

(2) the Chairman of the Joint Chiefs of Staff and the Service Chiefs should provide support for the financial literacy and preparedness training carried out under section 992, of title 10, United States Code.

SEC. 601. HEALTH INSURANCE.

(a) AMENDMENT.—Title 10, United States Code, is amended by inserting after chapter 55 the following new chapter:

"CHAPTER 55A—Health Insurance

"§1110g. Definitions

"In this chapter:

'(1) ADMINISTERING SECRETARIES.—The term 'administering Secretaries' has the meaning given the term in section 1072 of this title.

"(2) CHILD.—The term 'child', when used with respect to a member or former member of the uniformed services, means—

"(A) a legitimate child of the member or former member;

"(B) an adopted child of the member or former member;

"(C) a stepchild of the member or former member;

"(D) a person—

"(i) who is placed in the home of the member or former member by a placement agency (recognized by the Secretary of Defense), or by any other source authorized by State or local law to provide adoption placement, in anticipation of the legal adoption of the person by the member or former member; and

"(ii) who otherwise meets the requirements specified in paragraph (4)(D).

"(3) COVERED BENEFICIARY.—The term 'covered beneficiary' means—

"(A) a dependent of a member of the uniformed services;

"(B) a member of the reserve component of the armed forces who is not on active duty for a period of more than 30 days, and the immediate family of such member;

"(C) a member or former member of a uniformed service who is—

"(i) entitled to retired or retainer pay, or equivalent pay; and

"(ii) not entitled to hospital insurance benefits under part A of title XVIII of the Social Security Act (42 U.S.C. 1395c et seq.);

"(D) a dependent of a member or former member described in subparagraph (C);

"(E) Medal of Honor recipients;

"(F) an immediate dependent of a Medal of Honor recipient who meets the requirements of subparagraph (A), (B), (C), or (D) of paragraph (4); and

"(G) a member of the Retired Reserve of a reserve component of the armed forces who is qualified for a non-regular retirement at age 60 under chapter 1223 of this title, but is not age 60, and the immediate family of such member.

"(4) DEPENDENT.—The term 'dependent', when used with respect to a member or former member of the uniformed services, means—

"(A) the spouse of the member or former member;

"(B) the unremarried widow of the member or former member;

"(C) the unremarried widower of the member or former member;

"(D) a child of the member or former member who—

"(i) has not attained the age of 26; or

"(ii) is incapable of self-support because of a mental or physical incapacity that occurs while a dependent of a member or former member under clause (i) and is, or was at the time of the member's or former member's death, in fact dependent on the member or former member for over one-half of the child's support;

"(E) a parent or parent-in-law who is, or was at the time of the member's or former member's death, in fact dependent on the member for over one-half of the parent or parent-in-law's support and residing in the member's household;

"(F) the unremarried former spouse of a member or former member who on the date of the final decree of divorce, dissolution, or annulment, had been married to the member or former member for a period of at least 20 years during which period the member or former member performed at least 20 years of

service which is creditable in determining that member's or former member's eligibility for retired or retainer pay, or equivalent pay;

"(G) a person who is the unremarried former spouse of a member or former member who performed at least 20 years of service which is creditable in determining the member or former member's eligibility for retired or retainer pay, or equivalent pay, and on the date of the final decree of divorce, dissolution, or annulment before April 1, 1985, had been married to the member or former member for a period of at least 20 years, at least 15 of which, but less than 20 of which, were during the period the member or former member performed service creditable in determining the member's or former member's eligibility for retired or retainer pay;

"(H) a person who would qualify as a dependent under subparagraph (G) but for the fact that the date of the final decree of divorce, dissolution, or annulment of the person is on or after April 1, 1985, except that the term does not include the person after the end of the one-year period beginning on the date of that final decree; and

"(I) a person who—

"(i) is placed in the legal custody of the member or former member as a result of an order of a court of competent jurisdiction in the United States (or possession of the United States) for a period of at least 12 consecutive months;

"(ii)(I) has not attained the age of 26; or

"(II) is incapable of self-support because of a mental or physical incapacity that occurred while the person was considered a dependent of the member or former member under this subparagraph pursuant to subclause (I);

"(iii) is dependent on the member or former member for over one-half of the person's support;

"(iv) resides with the member or former member unless separated by the necessity of military service or to receive institutional care as a result of disability or incapacitation or under such other circumstances as the administering Secretary may by regulation prescribe; and

"(v) is not a dependent of a member or a former member under any other subparagraph.

"(5) DIRECTOR.—The term 'Director' means the Director of the Office of Personnel Management.

"(6) HEALTH CARE.—The term 'health care' includes mental health care.

"(7) IMMEDIATE FAMILY.—The term 'immediate family' has the meaning given the term in section 1076d(f) of this title.

"(8) MEDAL OF HONOR RECIPIENT.—The term Medal of Honor recipient means a person who has been awarded a medal of honor under section 3741, 6241, or 8741 of this title or section 491 of title 14.".

"§ 1110h. Health insurance program

"(a) PROGRAM AUTHORIZED.—The Director shall carry out a health insurance program that—

"(1) provides health insurance coverage to covered beneficiaries; and

"(2) includes a variety of health benefits plans that meet the requirements of this chapter;

"(3) offers a sufficient number of health benefits plans in every local geographic area of the United States in order to provide covered beneficiaries with an ample choice of health benefits plans, as determined by the Director; and

"(4) offers a selection of health benefits plans that—

"(A) are broadly representative of the health benefits plans available in the commercial market; and

"(B) do not contain unnecessary restrictions as determined by the Director.

"(b) RECOMMENDATIONS AND DATA.—

"(1) IN GENERAL.—The Secretary of Defense, in consultation with the Secretaries of Homeland Security, Commerce, and Health and Human Services, shall provide recommendations and data to the Director with respect to—

"(A) matters involving military medical treatment facilities;

"(B) matters unique to covered beneficiaries; and

"(C) any other strategic guidance necessary for the Director to administer the program under this chapter for covered beneficiaries.

"(2) IMPLEMENTATION LIMITATION.—The Director shall not implement any recommendation received from the Secretary of Defense under paragraph (1) for a calendar year if the Director determines that the implementation of the recommendation would result in covered beneficiaries receiving less generous health benefits under the health benefits plans offered the covered beneficiaries under this chapter for such year,

than the health benefits commonly available to other individuals and families under the health insurance program under chapter 89 of title 5 for such year.

"§ 1110i. Health benefits plan requirements.

"(a) PLANS.—The Director may contract for or approve a variety of health benefits plans under the program carried out under this chapter. Such plans—

"(1) may vary by type of plan design, covered benefits, geography or price; and

"(2) shall include maximum limitations on out-of-pocket expenses paid by a covered beneficiary for the health care provided under the health benefits plan selected by the covered beneficiary.

"(b) BENEFITS.—

"(1) IN GENERAL.—A health benefits plan under this chapter, at a minimum, shall include the following benefits:

"(A) The health care benefits, other than pharmaceutical and dental benefits, provided under chapter 55 of this title as such chapter was in effect on the date of enactment of the _____ Act.

"(B) The benefits described in section 8904 of title 5, other than pharmaceutical benefits.

"(C) The essential health benefits established under section 1302 of the Patient Protection and Affordable Care Act (42 U.S.C. 18022), other than pharmaceutical and dental benefits.

"(2) SPECIAL RULE FOR PHARMACY AND DENTAL CARE.—The Secretary of Defense shall continue to provide pharmaceutical and dental care to covered beneficiaries in accordance with chapter 55 of this title.

"(c) QUALITY.—The Director shall ensure that each health benefits plan offered under this chapter offers a high degree of quality, as determined by criteria such as—

"(1) access to an ample number of medical providers as determined by the Director;

"(2) ample access to the services provided under the benefits described in subsection (b)(1), including ease of referrals to and prior authorization for health care services (if applicable); and

"(3) rapid inclusion of advancements in medical treatments and technology in the services covered by the health benefits plan.

"(d) SPECIAL RULE RELATING TO MILITARY MEDICAL TREATMENT FACILITIES.—

"(1) IN GENERAL.—Not later than 2 years after the date of enactment of the _____ Act, the Director shall ensure that each health benefits plan offered within the geographic area surrounding a military medical treatment facility shall include, accept, or have a contract with providers within the military medical treatment facility.

"(2) GEOGRAPHIC AREA DEFINED.—In this subsection the term 'geographic area', when used with respect to a military medical treatment facility, means the area within 100 miles of the military medical treatment facility.

"(e) AUTHORITY TO ENTER INTO CONTRACTS AND AGREEMENTS WITH, AND RECEIVE PAYMENTS FROM, INSURANCE CARRIERS.—Notwithstanding any other provision of law, the Secretary of Defense or the Secretary's designee—

"(1) may enter into a contract or other agreement with an insurance carrier for health care and related services provided at a military medical treatment facility in accordance with the provisions of this chapter; and

"(2) may receive a payment from an insurance carrier for health care and related services provided at a military medical treatment facility in accordance with the provisions of this chapter.

"§ 1110j. Contracting

"(a) IN GENERAL.—The Director shall carry out contracting authority with insurance carriers pursuant to the health insurance program under this chapter in a manner similar to the manner the Director carries out contacting authority with insurance carriers under section 8902 of title 5, except that—

"(1) each contract under this chapter shall be for a uniform term of at least 1 year, but may be made automatically renewable from term to term in the absence of notice of termination by either party;

"(2) each contract under this chapter shall contain a detailed statement of benefits offered and shall include such maximums, limitations, exclusions, and other definitions of benefits as the Director considers necessary or desirable;

"(3) each contract under this chapter shall not be made, nor shall a health benefits plan be approved, which excludes an individual because of race, sex, health status, or, at the time of the first opportunity to enroll, because of age; and

"(4) the terms of each contract under this chapter which relate to the nature, provision, or extent of coverage or benefits (including payments with respect to benefits) shall supersede and preempt any State or local law, or any regulation issued thereunder.

"(b) FINANCIAL SOLVENCY EVALUATION.—The Director shall perform a thorough evaluation of the financial solvency of each insurance carrier with which the Director enters into a contract under subsection (a).

"§ 1110k. Funding

"(a) IN GENERAL—Funding of health care under this chapter—

"(1) in the case of covered beneficiaries associated with the Department of Defense, shall be made available from the military personnel appropriations of the Department of Defense;

"(2) in the case of covered beneficiaries associated with the Department of Homeland Security, the Department of Commerce, and the Department of Health and Human Services, shall be provided by the Secretary of Homeland Security, the Secretary of Commerce, and the Secretary of Health and Human Services, respectively; and

"(3) in the case of covered beneficiaries, shall be transferred into the Employees Health Benefits Fund established under section 8909 of title 5 (and managed by the Office of Personnel Management), when the Secretary of Defense, the Secretary of Homeland Security, the Secretary of Commerce, and the Secretary of Health and Human Services, as appropriate, determines necessary.

"(b) FUNDS TO REMAIN SEPARATED FROM FEHBP FUNDS.— The funding for health care under this chapter and the funding for health care under chapter 89 of title 5 shall remain separated within the Employees Health Benefits Fund established under section 8909.

"§ 1110l. Availability of basic allowance for health care

"(a) IN GENERAL.—An eligible member shall be entitled to a basic allowance for health care under section 402b of title 37 if the eligible member certifies to the Department of Defense that the eligible member's dependents have obtained health care coverage.

"(b) DEFINITION OF ELIGIBLE MEMBER.—In this section the term 'eligible member' means a member of the uniformed services who—

"(1) is on active duty for a period of more than 30 days; and

"(2) has a dependent.

"§ 1110m. Cost sharing

"(a) COST SHARING REQUIRED.—A covered beneficiary shall pay a premium for coverage under a health benefits plan provided under this chapter.

"(b) AMOUNT.—The premium in effect for coverage under a health benefits plan under this chapter shall be in the amount of—

"(1) in the case of the dependents of a member of the uniformed services who is on active duty for a period of more than 30 days, 28 percent of the annual cost of such coverage;

"(2) in the case of a member of the Selected Reserve of the Ready Reserve of a reserve component of the armed forces who is not on active duty for a period of more than 30 days and the immediate family of such member, 25 percent of the annual cost of such coverage;

"(3) in the case of a member of the Retired Reserve of a reserve component of the armed forces who is qualified for a non-regular retirement at age 60, under chapter 1223 of this title, but is not age 60, and the immediate family of such member, 100 percent of the annual cost of such coverage;

"(4) in the case of a member of a reserve component of the armed forces who is not described in paragraph (2) or (3) and is not on active duty for a period of more than 30 days, a percentage that is greater than 25 percent (as determined by the Secretary of Defense on the basis of the category of the member's service in the reserve component) of the annual cost of such coverage; and

"(5) in the case of a member or former member of a uniformed service who is entitled to retired or retainer pay, or equivalent pay, and who is not entitled to hospital insurance benefits under part A of title XVIII of the Social Security Act (42 U.S.C. 1395c et seq.), 5 percent of the annual cost of such coverage for the calendar year that begins 2 years after the date of enactment of the _____ Act, which percentage shall increase by 1 percent for each of the 15 succeeding calendar years following the beginning calendar year until the percentage reaches 20 percent and shall remain at 20 percent for the 16th such succeeding calendar year and each calendar year thereafter.

"§ 1110n. Assistance for catastrophic and chronic conditions

"(a) PROGRAM AUTHORIZED.—

"(1) IN GENERAL.—The Secretary of Defense is authorized to carry out a program of providing assistance to a member of the armed forces in order to help the member pay the out-of-pocket expenses for a dependent who experiences a high-cost chronic or catastrophic event or illness.

"(2) TAX TREATMENT OF ASSISTANCE.—Assistance received under this section shall be exempt from taxation under the Internal Revenue Code of 1986 (26 U.S.C. 1 et seq.).

"(b) ELIGIBILITY.—The Secretary shall provide assistance under this section only to a member of the armed forces on active duty for a period of more than 30 days who—

"(1) has a dependent who experiences a high-cost chronic or catastrophic event or illness;

"(2) incurs medical expenses that exceed the member's basic allowance for health care; and

"(3) has not paid sufficient out-of-pocket expenses to reach the maximum limitations on out-of-pocket expenses contained in the health benefits plan selected by the member for the dependents of the member.

"(b) AMOUNT OF ASSISTANCE.—The Secretary shall determine the amount of assistance to be provided to members of the armed forces under this section on the basis of the following factors:

"(1) The need of the members for the assistance.

"(2) The number of members applying for the assistance.

"(3) The amount of funds available for the program under this section.

"(c) APPLICATION.—Each member of the armed forces desiring assistance under this section shall submit an application to the Secretary of Defense at such time, in such manner, and accompanied by such information as the Secretary may require.

"§ 1110o. Medal of honor recipients and immediate dependents

"(a) MEDAL OF HONOR RECIPIENTS.—A former member of the armed forces who is a Medal of Honor recipient and who is not otherwise entitled to medical and dental benefits under this chapter or chapter 55 of this title may, upon request, participate in the health insurance program under this chapter in the same manner as if entitled to retired pay.

"(b) IMMEDIATE DEPENDENTS.—A person who is an immediate dependent of a Medal of Honor recipient and who is not otherwise entitled to medical and dental benefits under this chapter or chapter 55 of this title may, upon request, participate in the health insurance program under this chapter in the same manner as if the Medal of Honor recipient were, or (if deceased) was at the time of death, entitled to retired pay. For purposes of the preceding sentence, an immediate dependent of a Medal of Honor recipient is a dependent of a Medal of Honor recipient who meets the requirements of subparagraph (A), (B), (C), or (D) of section 1110g(4).".

(b) EFFECTIVE DATE.—Unless otherwise specified, subsection (a) and the amendment made by subsection (a) shall take effect 2 years after the date of enactment of this Act.

(c) FUNDING.—Of the amounts appropriated to the Department of Defense for military personnel for fiscal year 2016, $50,000,000 shall be available to carry out section 1110n of title 10, United States Code.

SEC. 602. DEPARTMENT OF DEFENSE HEALTH CARE TRUST FUND.

(a) IN GENERAL.—Chapter 55 of title 10, United States Code, is amended by adding at the end the following new section:

§ 1110c. Department of defense health care benefits trust fund

"(a) TRUST FUND ESTABLISHED.—The Secretary of Defense shall establish and administer a trust fund to be known as the 'Department of Defense Health Care Benefits Trust Fund' (hereafter in this section referred to as the 'Fund'). Amounts in the Fund shall be available for the uses described in subsection (b).

"(b) USES OF TRUST FUNDS.—Amounts in the Fund shall be used to finance—

"(1) health, dental and pharmacy benefits for members of the uniformed services on active duty for a period of more than 30 days;

"(2) pharmacy and dental benefits for dependents of members of the uniformed services on active duty for a period of more than 30 days; and

"(3) pharmacy and dental benefits for members of the armed forces in the reserve component and the immediate family of such members.

"(c) CREDITS TO THE FUND.—There shall be deposited into the Fund the following, which shall constitute the assets of the Fund:

"(1) Any amounts appropriated for the military personnel accounts of the Department of Defense for the uses described in subsection (b).

"(2) Amounts contributed to the Fund under subsection (d).

"(d) AUTHORITY TO ENTER INTO AGREEMENTS.—The Secretary of Defense shall enter into an agreement with each other administering Secretary for participation in the Fund by a uniformed service under the jurisdiction of that Secretary. The agreement shall require that Secretary to determine contributions to the Fund on behalf of the members of the uniformed service under the jurisdiction of that Secretary in a manner comparable to the determination with respect to contributions to the Department of Defense Retiree Health Care Fund made by the Secretary of Defense under section 1115(b) of this title, and such contributions shall be paid into the Fund in the same manner as contributions are paid into the Department of Defense Retiree Health Care Fund under section 1116(a).

"(e) PAYMENTS FROM THE FUND.—

"(1) IN GENERAL.—There shall be paid from the Fund amounts payable for the uses described in subsection (b).

"(2) ASSET AVAILABILITY.—The assets of the Fund are hereby made available for payments under paragraph (1).

"(3) TRANSFERS.—In carrying out paragraph (1), the Secretary of Defense may transfer periodically from the Fund to applicable appropriations of the Department of Defense, or to applicable appropriations of other departments or agencies, such amounts as the Secretary determines necessary to cover the costs chargeable to those appropriations for the uses described in subsection (b). Such transfers may include amounts necessary for the administration of such uses. Amounts so transferred shall be merged with and be available for the same purposes and for the same time period as the appropriation to which transferred. Upon a determination that all or part of the funds transferred from the Fund are not necessary for the purposes for which transferred, such amounts may be transferred back to the Fund. This transfer authority is in addition to any other transfer authority that may be available to the Secretary.

"(4) SPECIAL RULE.—If the Secretary of Defense enters into an agreement with another administering Secretary pursuant to subsection (d), then the Secretary of Defense may take the actions described in paragraph (3) for the purpose of administering funds for the uses described in subsection (b) on behalf of the other participating uniformed services.

SEC. 603. RETIREE HEALTH CARE FUND.

Chapter 56 of title 10, United States Code, is amended—

(1) in the chapter heading, by striking "**MEDICARE-ELIGIBLE**";

(2) in section 1111—

(A) in subsection (a)—

(i) by striking "Medicare-Eligible"; and

(ii) by striking "medicare-eligible"; and

(B) in subsection (b)—

(i) in paragraph (2), by striking "or 1086(c)(3)" inserting "1086(c)(3), or 1110g(4)";

(ii) by striking paragraph (3); and

(iii) by redesignating paragraphs (4) and (5) as paragraphs (3) and (4), respectively;

(3) in section 1113—

(A) in subsection (a)—

(i) by striking "and are medicare-eligible, and" and inserting "and for the benefit of"; and

(ii) by striking "who are medicare eligible";

(B) in subsection (c), by striking "who are medicare-eligible"; and

(C) in subsection (d), by striking "who are medicare-eligible";

(4) in paragraph (1) section 1114(a), by striking "Medicare-Eligible";

(5) in section 1115—

(A) in subsection (a)—

(i) by striking "(a) The Board" and inserting "(a)(1) The Board"; and

(ii) by adding at the end the following:

"(2)(A) Notwithstanding paragraph (1), the Board shall determine the amount that is the present value (as of the date of enactment of the _____ Act) of future benefits payable from the Fund that are attributable to service performed for non-Medicare eligible retirees before the date of enactment of the _____ Act.

That amount is the subsequent unfunded liability of the Fund. The Board shall determine the period of time over which the subsequent unfunded liability should be liquidated and shall determine an amortization schedule for the liquidation of such liability over that period. Contributions to the Fund for the liquidation of the subsequent unfunded liability in accordance with such schedule shall be made as provided in section 1116 of this title.

"(B) In this paragraph the term 'non-Medicare eligible retiree' means a member or former member described in subparagraph (C) of section 1110g(3) of this title."; and

(B) in paragraph (2) of subsection (c), by striking "medicare-eligible".

SEC. 604. BASIC ALLOWANCE FOR HEALTH CARE.

(a) PAY AND ALLOWANCES OF THE UNIFORMED SERVICES.—

(1) IN GENERAL.—Chapter 7 of title 37, United States Code, is amended by inserting after section 402a the following new section:

"§ 402b. Basic allowance for health care

"(a) DEFINITIONS.—In this section:

"(1) ADMINISTERING SECRETARIES.—The term 'administering Secretaries' has the meaning given the term in section 1072 of title 10, United States Code.

"(2) ELIGIBLE MEMBER.—The term 'eligible member' means a member of the uniformed services who—

"(A) is on active duty for a period of more than 30 days; and

"(B) has a dependent.

"(3) OUT-OF-POCKET EXPENSE.—The term 'out-of-pocket expense' means a copayment, coinsurance, or a deductible.

"(b) ENTITLEMENT TO ALLOWANCE.— Each eligible member is entitled to a basic allowance for health care as set forth in this section.

"(c) AMOUNT OF ALLOWANCE.—

"(1) RATE.—The rate of basic allowance for health care to be in effect for a calendar year shall be equal to the sum of—

"(A) 28 percent of the total premium cost of the benchmark plan determined under paragraph (2) for the calendar year; plus

"(B) the average amount of out-of-pocket expenses for all the dependents of the eligible members in the geographic location (as determined by the Director of the Office of Personnel Management) for the preceding calendar year under the health benefits plans under chapter 55A of title 10.

"(2) DETERMINATION OF BENCHMARK PLAN.—

"(A) IN GENERAL.—The Director of the Office of Personnel Management shall determine the benchmark plan for a calendar year as follows:

"(i) Rank each health benefits plan under chapter 55A of title 10, that is selected in a geographic area by a member of the uniformed services on active duty for a period of more than 30 days, by the total premium cost of the health benefits plan for the calendar year preceding the calendar year for which the determination is made.

"(ii) The benchmark plan is the health benefits plan with the median total premium cost, subject to subparagraph (B).

"(B) SPECIAL RULE.—In the event that the median total premium cost falls between 2 health benefits plans, the health benefits plan with the higher cost shall be the benchmark plan.

"(3) FIRST YEAR SPECIAL RULE.—In determining the rate of the basic allowance for health care for the first calendar year for which the allowance is paid under this section, the Director of the Office of Personnel Management, in consultation with the administering Secretaries, shall—

"(A) project the likely health benefits plan choices of eligible members and the likely utilization behavior for dependents of eligible members to be served under the health benefits plans; and

"(B) use the projections under subparagraph (A) to determine the basic allowance for health care for such calendar year in accordance with the calculation described in paragraph (1).

"(4) NOTIFICATION.—The Director of the Office of Personnel Management shall notify the administering Secretaries of the amount of the basic allowance for health care for each calendar year.

"(d) PAYMENTS.—

"(1) PAYMENTS FOR HEALTH BENEFITS PLAN PREMIUMS.—

"(A) ELIGIBLE MEMBERS SELECTING A HEALTH BENEFITS PLAN UNDER CHAPTER 55A OF TITLE 10.—The administering Secretaries shall pay into the Employees Health Benefits Fund established under section 8909 of title 5 the basic allowance for health care amount determined under subsection (c)(1)(A) for each eligible member entitled to a basic allowance for health care under this

section who selects a health benefits plan for the member's dependents under chapter 55A of title 10.

"(B) ELIGIBLE MEMBERS SELECTING A HEALTH BENEFITS PLAN FROM OTHER SOURCES.—In the case of an eligible member entitled to a basic allowance for health care under this section who selects a health benefits plan for the member's dependents that is not included in the health insurance program administered by the Director of the Office of Personnel Management under chapter 55A of title 10, the administering Secretaries shall pay the basic allowance for health care amount determined under subsection (c)(1)(A) for the eligible member directly to the administering authority for the health benefits plan.

"(2) PAYMENTS FOR OUT-OF-POCKET EXPENSES.—The administering Secretaries shall pay to each eligible member the basic allowance for health care amount determined under subsection (c)(1)(B) for the eligible member.".

(2) DEFINITION OF REGULAR COMPENSATION OR REGULAR MILITARY COMPENSATION.—Paragraph (25) of section 101 of title 37, United States Code, is amended by inserting ", basic allowance for health care" after "subsistence".

(b) CONFORMING AMENDMENTS TO THE INTERNAL REVENUE CODE OF 1986.—The Internal Revenue Code of 1986 (26 U.S.C. 1 et seq.) is amended—

(1) in paragraph (3) of section 35(f) (26 U.S.C 35(f))—

(A) in subparagraph (A), by striking "or" after "Code,";

(B) in subparagraph (B), by striking the period and inserting ", or"; and

(C) by adding at the end the following new subparagraph:

"(C) is enrolled in a health benefits plan under chapter 55A of title 10.";

(2) in subsection (b) of section 134 (26 U.S.C. 134)), by adding at the end the following new paragraph:

"(7) The term 'qualified military benefit' includes a basic allowance for health care provided under section 1110l of title 10 and section 402b of title 37.";

(3) in clause (iv) of section 5000A(f)(1)(A) (26 U.S.C. 5000A(f)(1)(A)), by inserting "or 55A" after "55";

(4) in subparagraph (E) of section 9801(c)(1) (26 U.S.C. 9801(c)(1)), by inserting "or 55A" after "55"; and

(5) in paragraph (4) of section 9832(c) (26 U.S.C. 9832(c)), by inserting "or 55A" after "55".

SEC. 605. GENERAL TECHNICAL AMENDMENTS.

Not later than 6 months after the date of the enactment of this Act, the Secretary of Defense shall submit to the Committees on Armed Services of the Senate and House of Representatives a draft of legislation to make any technical and conforming changes to title 10, United States Code, and other provisions of law, that are required or should be made by reason of the amendments made by sections 601 through 604.

SEC. 801. UNIFORM FORMULARY.

(a) IN GENERAL.—Paragraph (2) section 1074g(a) of title 10, United States Code, is amended by adding at the end the following new subparagraph:

"(G)(i) The Joint Executive Committee established under section 320 of title 38, United States Code, shall establish a process for determining, and shall determine, classes of drugs that are critical for the transition from military service.

"(ii) The Joint Executive Committee shall—

"(I) review the classes of drugs determined to be critical for the transition from military service, periodically and whenever the Joint Executive Committee determines review is needed;

"(II) create a strategic uniform formulary that includes all drugs determined to be critical for the transition from military service.

"(iii) Not later than 6 months after the date of enactment of the _____ Act, the Joint Executive Committee shall establish, within the strategic uniform formulary described in clause (ii)(II), the pain and psychiatric drugs that are critical for the transition from military service.".

(b) CONFORMING AMENDMENT.—Section 320 of title 38, United States Code, is amended by adding at the end the following new subsection:

"(e) STRATEGIC UNIFORM FORMULARY.—The Committee shall carry out the functions related to determining classes of drugs that are critical to the transition from military service, and to creating a strategic uniform formulary, in accordance with section 1074g(a)(2)(G) of title 10.".

SEC. 802. RESOURCE SHARING AGREEMENTS.

(a) AMENDMENT TO TITLE 10.—Section 1104 of title 10, United States Code, is amended by adding at the end the following:

"(e) RESOURCE SHARING AGREEMENTS.—The Secretary of Defense and the Secretary of Veterans Affairs shall establish—

"(1) categories of resource sharing agreements between the two Departments that the Secretaries determine can be quickly and efficiently implemented by the heads of local medical facilities in a standard manner; and

"(2) standardized model resource sharing agreements for each such category.".

(b) AMENDMENT TO TITLE 38.—Section 8111 of title 38, United States Code, is amended—

(1) by redesignating subsection (g) as subsection (h); and

(2) by inserting after subsection (f) the following new subsection:

"(g) RESOURCE SHARING AGREEMENTS.—The Secretary of Veterans Affairs and the Secretary of Defense shall establish—

(1) categories of resource sharing agreements between the two Departments that the Secretaries determine can be quickly and efficiently implemented by the heads of local medical facilities in a standard manner; and

"(2) standardized model resource sharing agreements for each such category.".

SEC. 803. JOINT EXECUTIVE COMMITTEE.

(a) IN GENERAL.—Section 320 of title 38, United States Code, is amended further—

(1) in subsection (a), by striking paragraph (2) and inserting the following:

"(2)(A) The Committee shall be composed of the Secretary of Veterans Affairs and the Secretary of Defense.

"(B) The Secretary of Veterans Affairs may delegate the responsibilities of the Secretary of Veterans Affairs under this section to the Deputy Secretary of Veterans Affairs. The Secretary of Veterans Affairs may not delegate such responsibilities to any individual within the Department of Veterans Affairs other than the Deputy Secretary of Veterans Affairs. The Deputy Secretary of Veterans Affairs may not delegate such responsibilities to any individual within the Department of Veterans Affairs

"(C) The Secretary of Defense may delegate the responsibilities of the Secretary of Defense under this section to the Deputy Secretary of Defense. The Secretary of Defense may not delegate such responsibilities to any individual within the Department of Defense other than the Deputy Secretary of Defense. The Deputy Secretary of Defense may not delegate sueh responsibilities to any individual within the Department of Defense.";

(2) in subsection (b)—

(A) in paragraph (1)—

(i) by striking "Deputy"; and

(ii) by striking "Under"; and

(B) in paragraph (2), by striking "Deputy Secretary and Under Secretary" and inserting "Secretary of Veterans Affairs and Secretary of Defense";

(3) in subsection (c)—

(A) in the subsection heading, by striking "RECOMMENDATIONS" and inserting "STRATEGIC DIRECTION AND IMPLEMENTATION"; and

(B) in paragraph (1), by striking "recommend to the Secretaries" and inserting "provide";

(C) in paragraph (2)—

(i) by striking "the two Secretaries and to";

(ii) by striking "an annual" and inserting "a semiannual"; and

(iii) by adding at the end the following new sentence: "In addition the semiannual report shall—

"(A) set forth the expenditures of the Department of Defense and the Department of Veterans Affairs for common services as described in subsection (f)(1);

"(B) describe those expenditures for common services that comply with the strategic plan established under subsection (f)(2);

"(C) describe those expenditures for common services that were not consistent with the strategic plan established under subsection (f)(2) and describe the reasons for the inconsistencies;

"(D) describe the success of the interagency agreement described in subsection (g);

"(E) describe each capital expenditure of the Department of Defense and the Department of Veterans Affairs;

"(F) contain a statement of whether each capital expenditure described in subparagraph (E) is consistent with the strategic plan established under subsection (f)(2);

"(G) include any medical capital asset determination made under subsection (h) for the year preceding the year for which the report is submitted; and

"(H) describe each medical and related expenditure of the Department of Defense and the Department of Veterans Affairs that was not consistent with the strategic plan established under subsection (f)(2) and describe the reason for the inconsistency.";

(4) in the matter preceding paragraph (1) of subsection (d), by striking "annual" and inserting "semiannual"; and

(5) by adding after subsection (e) (as added by section 801(b)) the following new subsections:

"(f) HEALTH CARE.—

"(1) COMMON SERVICES DEFINITION.—The Committee shall develop a definition of common services that—

"(A) establishes the services for the provision of health care that—

"(i) routinely will be coordinated between the two Departments; and

"(ii) are applicable across all local markets;

"(B) serves to enhance collaboration between the two Departments with respect to the provision of health care; and

"(C) is evaluated, not less than annually, for consistency with the strategic plan established under paragraph (2).

"(2) STRATEGIC PLAN.—

"(A) IN GENERAL.—The Committee shall establish a strategic plan, separately or as part of a strategic plan described in section 8111 of this title or section 306 of title 5, for the joint coordination and sharing efforts between the two Departments with respect to the provision of health care.

"(B) CONTENTS.—The strategic plan established under subparagraph (A) shall—

"(i) incorporate the common services definition established under paragraph (1); and

"(ii) ensure the common services are used to provide the strategic direction for the joint coordination and sharing efforts between the two Departments with respect to the provision of health care.

"(g) INTERAGENCY AGREEMENT.—

"(1) IN GENERAL.—The Secretary of Defense and the Secretary of Veterans Affairs shall enter into an interagency agreement that—

"(A) establishes a national reimbursement and billing process for health care services which is—

"(i) based on prospective payment with local flexibilities; and

"(ii) reconciled on a quarterly basis; and

"(B) provides, in the case of a referral of an individual for the provision of health care outside a Department of Defense or Department of Veterans Affairs medical facility but within a common market area, that any nonreferring Department of Defense or Department of Veterans Affairs medical facility providing health care in the common market area has a right of first refusal to treat the individual.

"(2) COMMON MARKET AREA DETERMINATION.—The Committee shall determine what constitutes a common market area for purposes of paragraph (1)(B).

"(h) MEDICAL CAPITAL ASSET JOINT ACQUISITION OR USE DETERMINATION REQUIRED.—The Committee shall determine whether any planned acquisition of a medical capital asset by the Department of Defense or the Department of Veterans Affairs should be acquired or used jointly by such departments.".

SEC. 804. ELECTRONIC HEALTH RECORDS.

(a) IN GENERAL.—Not later than 180 days after the date of enactment of the _____ Act, the Secretary of Veterans Affairs and the Secretary of Defense jointly shall establish an electronic health record, within the electronic health record system of the Department of Veterans Affairs and in accordance with section 713 of the National Defense Authorization Act for Fiscal Year 2014, for each—

(1) member of the Armed Forces; and

(2) individual who completes a military service specific enlisted or officer accession program.

(b) MONITORING AND REPORTING.—

(1) MONITORING.—The Secretary of Veterans Affairs, in consultation with the Secretary of Defense, shall monitor the number and percentage of members and individuals described in subsection (a) who have an electronic health record in the electronic health record system of the Department of Veterans Affairs.

(2) REPORTING.— The Secretary of Veterans Affairs, in consultation with the Secretary of Defense, shall prepare and annually submit to Congress a report that contains the number and percentage of members and individuals described in subsection (a) who have an electronic heath record in the electronic health record system of the Department of Veterans Affairs.

SEC. 1101. MONTGOMERY GI BILL ELIGIBILITY SUNSET.

(a) BASIC EDUCATIONAL ASSISTANCE ENTITLEMENT FOR SERVICE ON ACTIVE DUTY.—Section 3011(a)(1)(A) of title 38, United States Code, is amended by inserting "but before October 1, 2015," after "1985,".

(b) GENERAL TECHNICAL AMENDMENTS.—Not later than 6 months after the date of the enactment of this Act, the Secretary of Defense and the Secretary of Veterans Affairs each shall submit to the Committees on Armed Services of the Senate and House of Representatives a draft of legislation to make any technical and conforming changes to titles 10 and 38, United States Code, and other provisions of law, that are required or should be made by reason of the amendments made by subsection (a).

SEC. 1102. RESERVE EDUCATION ASSISTANCE PROGRAM CONTINUING ELIGIBILITY AND SUNSET PROVISION.

(a) IN GENERAL.—Chapter 1607 of title 10, United States Code, is amended by adding after section 16166 the following new section:

"§ 16167. Continuing eligibility and sunset provision

"(a) CONTINUING ELIGIBILITY FOR CERTAIN MEMBERS.— Notwitbstanding any other provision of this chapter, for the period beginning on the date of enactment of the _____ Act and ending 4 years after such date of enactment, educational assistance under this chapter shall only be provided to a member who—

"(1) entered service prior to such date of enactment; and

"(2) received educational assistance under this chapter prior to such date of enactment.

"(b) SUNSET PROVISION.—The authority to provide educational assistance under this chapter shall terminate 4 years after the date of enactment of the _____ Act.".

(b) CLERICAL AMENDMENT.—The table of sections at the beginning of such chapter is amended by adding at the end the following:

"16167. Continuing eligibility and sunset provision.".

SEC. 1103. POST-9/11 GI BILL TRANSFERABILITY.

Paragraph (1) of section 3319(b) of title 38, United States Code, is amended—

(1) by striking "six years" and inserting "ten years"; and

(2) by striking "four more" and inserting "two more".

SEC. 1104. SENSE OF CONGRESS REGARDING TRANSFERABILITY OF UNUSED EDUCATION BENEFITS TO FAMILY MEMBERS.

(a) IN GENERAL.—It is the sense of Congress that each Secretary concerned should—

(1) exercise the discretionary authority granted under section 3319(a)(2) of title 10, United States Code, regarding transferability of unused educational benefits to family members, in a manner that encourages retention of individuals in the uniformed services; and

(2) be more selective in permitting such transferability.

(b) DEFINITIONS.—In this section the terms "Secretary concerned" and "uniformed services" have the meanings given the terms in section 101 of title 10, United States Code.

SEC. 1105. REPORT ON EDUCATIONAL ATTAINMENT.

Paragraph (1) of section 3325(b) of title 38, United States Code, is amended—

(1) in subparagraph (B), by striking "and" after the semicolon; and

(2) by adding at the end the following new subparagraph:

"(D) indicating the highest level of education obtained by each individual who transfers an education benefit under section 3319; and".

SEC. 1106. REPORT ON EDUCATIONAL LEVELS OF MEMBERS OF THE ARMED FORCES AT SEPARATION.

Section 1142 of title 10, United States Code, is amended by adding at the end the following new subsection:

"(d) REPORT ON EDUCATIONAL LEVELS OF MEMBERS OF THE ARMED FORCES AT SEPARATION.— The Secretary concerned shall—

"(1) collect information, at the time of separation, on the highest level of education obtained by each member of the armed forces; and

"(2) prepare and submit annually to Congress a report that contains the information described in paragraph (1).".

SEC. 1107. TERMINATION OF BAH PAYMENTS FOR DEPENDENTS USING TRANSFERRED EDUCATION BENEFITS.

Paragraph (2) of section 3319(h) of title 38, United States Code, is amended—

(1) in subparagraph (A), by inserting ", except that beginning on July 1, 2017, the spouse shall not receive the monthly housing stipend described in section 3313(c)(1)(B)" before the semicolon; and

(2) in subparagraph (B), by inserting ", except that beginning on July 1, 2017, the child shall not receive the monthly housing stipend described in section 3313(c)(1)(B)" before the semicolon.

SEC. 1108. UNEMPLOYMENT INSURANCE.

(a) AMENDMENTS TO TITLE 5.—Subsection (b) of section 8525 of title 5, United States Code, is amended—

(1) in paragraph (1), by striking "or" after the semicolon;

(2) in paragraph (2), by striking the period and inserting "; or"; and

(3) by adding at the end the following new paragraph:

"(3) a housing stipend under section 3313 of title 38.".

(b) AMENDMENT TO TITLE 38.—Section 3322 of title 38, United States Code, is amended by adding at the end the following:

"(i) BAR TO CONCURRENT RECEIPT OF HOUSING STIPEND AND UNEMPLOYMENT COMPENSATION.—An individual eligible to receive a housing stipend under section 3313 of this title and unemployment compensation under subchapter II of chapter 85 of title 5, United States Code, may not receive assistance under both provisions concurrently, but shall elect (in such form and manner as the Secretary may prescribe) under which provision to receive assistance.".

SEC. 1109. REPORTING ON STUDENT PROGRESS.

(a) IN GENERAL.—Chapter 33 of title 38, United States Code, is amended–

(1) in subsection 3325(c)—

(A) in paragraph (2), by striking "and" after the semicolon;

(B) by redesignating paragraph (3) as paragraph (4); and

(C) by inserting after paragraph (2) (as amended by subparagraph (A)) the following new paragraph:

"(3) the student progress information received under section 3326 of this title; and"; and

(2) by adding at the end the following new section:

"§ 3326. Report on student progress

Each educational institution receiving a payment on behalf of an individual who receives educational assistance under this chapter shall report annually to the Secretary such information regarding the academic progress of the individual as the Secretary may require.".

(b) CLERICAL AMENDMENT.—The table of sections at the beginning of such chapter is amended by adding at the end the following:

"3326. Report on Student Progress.".

SEC. 1301. SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM INFORMATION.

Paragraph (8) of section 11(e) of the Food and Nutrition Act of 2008 (7 U.S.C. 2020(e)) is amended—

(1) in clause (iii) of subparagraph (E), by striking "and" after the semicolon;

(2) in subparagraph (F), by inserting "and" after the semicolon; and

(3) by adding at the end the following new subparagraph:

"(G) the safeguards shall not prevent the use of such information by, or the disclosure of such information to, the Department of Defense for the purposes of determining the number of applicant households that contain one or more members of an active component or reserve component of the Armed Forces;".

SEC. 1302. SUPPLEMENTAL SUBSISTENCE ALLOWANCE.

Subsection (b) of section 402a of title 37, United States Code, is amended by adding at the end the following new paragraph:

"(4) Notwithstanding any other provision of this section, only members of the armed forces who are serving outside the several States of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the United States Virgin Islands, or Guam may receive a supplemental assistance allowance under this section after September 30, 2016.".

SEC. 1303. ANNUAL SNAP REPORT.

(a) ANNUAL REPORT REQUIRED.—The Secretary of Agriculture shall prepare an annual report, in consultation with the Secretary of Defense, detailing the use of assistance under the

Supplemental Nutrition Assistance Program (SNAP) under the Food and Nutrition Act of 2008 (7 U.S.C. 2011 et seq.) by members of the armed forces.

(b) TRANSMITTAL.—The report described in subsection (a) shall be transmitted to the Secretary of Defense.

(c) DEFINITION OF ARMED FORCES.—In this section, the term "armed forces" has the meaning given the term in section 101(a)(4) of title 10, United States Code.

SEC. 1501. STUDENTS CONNECTED TO THE MILITARY.

The Elementary and Secondary Education Act of 1965 (20 U.S.C. 6301 et seq.) is amended—

(1) in section 1111(h)(1)(C)(i) (20 U.S.C. 6311(h)(1)(C)(i)), by inserting "status as connected to the military (further disaggregated by active-duty and reserve component)," after "English proficiency,"; and

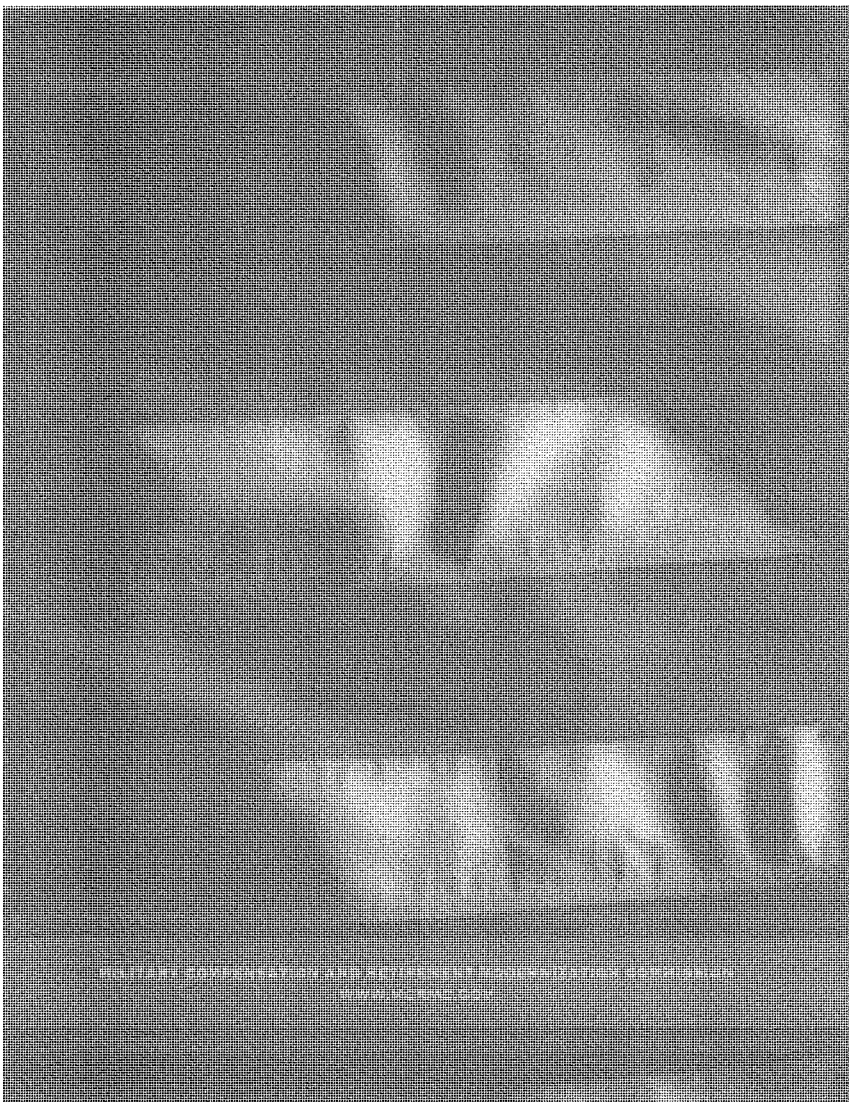
(2) in section 9101 (20 U.S.C. 7801), by inserting after paragraph (6) the following:

"(7) CONNECTED TO THE MILITARY.—The term 'connected to the military', when used with respect to a student, means a student who has a parent serving—

"(A) in the armed forces as defined in section 101(a)(4) of title 10, United States Code; and

"(B)(i) on active duty as defined in section 101(d)(1) of title 10, United States Code; or

"(ii) in the reserve component as defined in subparagraphs (A) through (F) of section 101(24) of title 37, United States Code.".



APPENDIX D—STATEMENT OF THE FLEET RESERVE ASSOCIATION

Statement of

The Fleet Reserve Association

On

The Recommendations of the

Military Compensation and

Retirement Modernization Commission

Submitted to:

Senate Armed Services Committee

By

Thomas J. Snee, M. Ed,
FRA National Executive Director
FORCM (SW), USN, (Ret)

February 3, 2015

The FRA

The Fleet Reserve Association (FRA) celebrated 90 years of service last November 11, and is the oldest and largest enlisted organization serving active duty, Reserves, retired and veterans of the Navy, Marine Corps, and Coast Guard. It is Congressionally Chartered, recognized by the Department of Veterans Affairs (VA) as an accrediting Veteran Service Organization (VSO) for claim representation and entrusted to serve all veterans who seek its help. In 2007, FRA was selected for full membership on the National Veterans' Day Committee.

FRA was established in 1924 and its name was derived from the Navy's and Marine Corps program for personnel transferring to the Fleet Reserve or Fleet Marine Corps Reserve after 20 or more years of active duty, but less than 30 years for retirement purposes. During the required period of service in the Fleet Reserve, assigned personnel earn retainer pay and are subject to recall by the Navy.

FRA's mission is to act as the premier "watch dog" group in maintaining and improving the quality of life for Sea Service personnel and their families. FRA is a leading advocate on Capitol Hill for enlisted active duty, Reserve, retired and veterans of the Sea Services. The Association also sponsors a National Americanism Essay Program and other recognition and relief programs. In addition, the FRA Education Foundation oversees the Association's scholarship program that presents awards totaling nearly $123,000 to deserving students each year.

The Association is also a founding member of The Military Coalition (TMC), a 33-member consortium of military and veteran's organizations. FRA hosts most TMC meetings and members of its staff serve in a number of TMC leadership roles.

For nine decades, dedication to its members has resulted in legislation enhancing quality of life programs for Sea Services personnel, other members of the uniformed services plus their families and survivors, while protecting their rights and privileges. CHAMPUS, (now TRICARE Standard) was an initiative of FRA, as was the Uniformed Services Survivor Benefit Plan (USSBP). More recently, FRA led the way in reforming the REDUX Retirement Plan, obtaining targeted pay increases for mid-level enlisted personnel, and sea pay for junior enlisted sailors. FRA also played a leading role in advocating recently enacted predatory lending protections and absentee voting reform for service members and their dependents.

FRA's motto is: "Loyalty, Protection, and Service."

Certification of Non-Receipt
Of Federal Funds

Pursuant to the requirements of House Rule XI, the Fleet Reserve Association has not received any federal grant or contract during the current fiscal year or either of the two previous fiscal years.

Introduction

Mr. Chairman, FRA salutes you, the Ranking member and all members of the Committee, and your staff for the strong and unwavering support of programs essential to active duty, Reserve Component, and retired members of the uniformed services, their families, and survivors. The Committee's work has greatly enhanced care and support for our wounded warriors and significantly improved military pay, and other benefits and enhanced other personnel, retirement and survivor programs. This support is critical in maintaining readiness and is invaluable to our uniformed services engaged throughout the world fighting to stop terrorism generated by Islamic extremism, sustaining other operational requirements and fulfilling commitments to those who have served in the past.

Background

The FY 2013 National Defense Authorization Act (H.R. 4310 – P.L. 112-239) establishes the Military Compensation and Retirement Modernization Commission (MCRMC), but limits its recommendations from being a BRAC-like endorsement, as originally proposed, in its review of the current compensation and military retirement system. FRA believes it's important that this distinguished Committee, its House counterpart, and House and Senate Personnel subcommittees maintain oversight over commission recommendations. While FRA supports many of the Commission's recommendations it was noted that no enlisted personnel were appointed to serve on the Commission. Nearly 75 percent of the current active force is enlisted and therefore should have representation on this Commission.

The commission was instructed not to alter the current retirement system for those already serving, retired or in the process of retiring. Along with a review of military compensation, the president asked that the commission look at the "interrelationship of the military's current promotion system."

The driving-force for creating the MCRMC has been the myth that "personnel costs are eating us alive" and that personnel costs are "unsustainable."

Of historical note in 1986 Congress passed, over the objection of then Secretary of Defense Casper Wienberger, major retirement changes, known as "Redux," that significantly reduced retirement compensation for those joining the military after 1986. FRA led efforts to repeal the act in 1999 after the military experienced retention and recruitment problems. The Association

continues to monitor the take rate for personnel choosing between remaining on the High 3 program, or the Redux program at 15-years of service.

The Commission believes that it can make drastic changes to pay, retirement, and other benefits and assumes it will have no iinpact on retention, recruitment, and readiness. Past experiences with substantial benefit changes indicate otherwise. Rhetoric about "unsustainable" personnel costs since 2000 is misleading. Improvements since 2000 to personnel programs were needed to offset pay and benefit cutbacks of the late 1980s and the 1990s that undermined retention and recruitment.

The U.S. Navy completed a study from May 1, 2014 through May 30, 2014, to better understand the barriers to adequate retention for the Navy. The survey indicates that Sailors are most likely to leave uniformed service because of a perception of increasingly high operational tempo, poor work/life balance, low service-wide morale, declining pay and compensation, declining desire to hold senior leadership positions, and widespread distrust of senior leadership, all of which erodes loyalty to the Navy.

The survey indicates that 80.4 percent rank the current retirement system (defined benefit pension), and 73.9 percent rank pay, as the two most important reasons to remain in uniform. When asked about the impact of the current 20-year retirement plan, 75.8 percent of enlisted and 80.9 percent of officers said changing to a 401 K style system would make them more likely to leave earlier in their career. The survey seems to indicate that any drastic changes to the military retirement system could have catastrophic consequences for retention. The study conclusions are based on a random sample of 5,536 responses with a margin of error of 1.3 percent.

FRA wants to thank the members of the Commission and their staff for allowing FRA to have input while the report was being written. The Commission met with 97 other advocacy groups as well. The MCRMC visited 55 military installations, received more than 150,000 survey responses from active duty and retirees, and held eight Town Hall meetings in their efforts to understand the complexity of the military compensation and retirement systems.

MCRMC Final Report

The report makes 15 major recommendations intended to improve the cost-effectiveness of quality benefits for those who currently serve, have served and will serve in the future. The first recommendation provides a blended retirement benefit to future service members and retirees. The current defined benefit plan after 20 years of service would be replaced by smaller defined benefit plan and a mandated defined contribution plan known as a Thrift Savings Plan (TSP) providing a one percent employer contribution. Any employee contributions for the first two years would be matched by employer up to three percent of pay, and after two years the employer would match up to 5 percent. FRA opposes the first recommendation believing that

shifting benefits from 20-year career service members to service members with as little as two years of service with a portable benefit is laying the groundwork for catastrophic retention crisis.

No federal government obligation is more important than national security. And the most important element of national security is sustainment of a dedicated, top quality career force. The All-Volunteer Force (AVF) has performed well. It has endured a 13 year long conflict with terrorism. Absent the career drawing power of the current 20-year retirement system, FRA would contend that, sustaining adequate retention levels over an extended period of constant combat deployments would have been impossible. The Association believes that "civilianization" of the military benefit package will dramatically undermine the primary military career incentive and will prove to be catastrophic for retention and readiness. The current retirement system was established to ensure a strong and top-quality career force despite arduous service conditions, that few civilians ever experience and few would be willing to accept.

The TSP provides a portable investment that will encourage mid-level service members to seek employment in the civilian sector. FRA believes that a military career is a unique profession that requires a unique retirement system. The MCRMC retirement changes would reduce the number of career service members dramatically. Career senior non-commissioned officers (NCOs) are the backbone of our military and their leadership and guidance are invaluable and a result of specialized years of training and experience.

Recommendation 6 impacts current active duty, the Reserve Component, and retirees under age 65 and is the most wide-ranging recommendation that calls on Congress to replace the current health care arrangement with a new system that provides beneficiaries with choices offered by commercial insurance companies. The Commission found that TRICARE is no longer fiscally sustainable. FRA does **not** support or oppose this recommendation at this time; but believes that such vast and dramatic change to the health care benefit requires a second opinion.

Beneficiaries would be switched to a plan similar to the Federal Employee Health Benefit Program (FEHBP), except that Military Treatment Facilities (MTF) would be included in the network. Like the FEHBP beneficiaries could choose from a selection of commercial insurance plans. The plan would be administered by the Office of Personnel Management (OPM) rather than the Defense Department (DoD). Beneficiaries would be required to pay 20 percent of all health care costs. Beneficiary family members would not be covered under the plan and would be provided a Basic Allowance for Health Care (BAHC) to cover the cost of premiums and deductibles for an average health care plan. Reserve Component (RC) members who are mobilized would also receive a BAHC in lieu of TRICARE coverage.

The Association believes that recommendation 2 misses the mark by not addressing the 60,000 survivors that currently have their Survivor Benefit Plan (SBP) being offset by VA Dependency and Indemnity Compensation (DIC). FRA advocates that this "widow's tax" should be

eliminated. Further providing an option that nearly doubles SBP premiums from 6.5 to 11.25 will have few buyers. The report does not comment on the Special Survivor Indemnity Allowance (SSAI) for surviving spouses of members who died while serving on active duty that will sunset at the end of FY 2017. FRA strongly supports eliminating or at least extending this provision if SBP/DIC offset is not repealed.

SBP and DIC payments are paid for different reasons. SBP is purchased by the retiree and is intended to provide a portion of retired pay to the survivor. DIC is a special indemnity compensation paid to the survivor when a member's service causes his or her premature death. In such cases, the VA indemnity compensation should be added to the SBP the retiree paid for, not substituted for it. It should be noted as a matter of equity that surviving spouses of federal civilian retirees who are disabled veterans and die of military-service-connected causes can receive DIC without losing any of their federal civilian SBP benefits. Further FRA believes Congress should reduce the age for paid-up SBP to age 67 for those who joined the military at age 17, 18 or 19.

FRA strongly supports recommendation 3 that promotes financial literacy and believes it should be expanded to include educational information on the Uniform Services Former Spouse Protection Act (USFSPA).

The Association was in the forefront of supporting the enactment of the MLA in 2006 and supported the creation of the Office of Military Liaison within the CFPB when the Bureau's enabling legislation was enacted in 2010. FRA continues its work to ensure active duty personnel are protected from predatory lenders, and urges this subcommittee to ensure that the MLA is effectively administered. The Association applauds recent efforts by the Consumer Finance Protection Bureau (CFPB) to regulate predatory lenders through enforcement of the Military Lenders Act (MLA).

Active duty members that get divorced also need protections from USFSPA, and FRA recommends that they be educated about the negative consequences of this badly drafted legislation. FRA urges Congress to review the Uniformed Services Former Spouses Protection Act (USFSPA) with the intent to amend the language so that the Federal government is required to protect its service members against State courts that ignore the Act. The USFSPA was enacted 33 years ago; the result of Congressional maneuvering that denied the opposition an opportunity to express its position in open public hearings. The last hearing, in 1999, was conducted by the House Veterans' Affairs Committee rather than the House Armed Services Committee which has oversight authority for USFSPA. FRA believes that the Pentagon's USFSPA study recommendations are a good starting point for reform. *This study includes improvements for both former spouse and the service member.*

FRA strongly supports recommendation 4 that urges Congress to replace the 30 current Reserve Component statuses with 6. FRA stands foursquare in support of the Nation's Reservists and to

improved compensation and benefits packages to attract recruits and retain currently serving personnel. The Association also wants to make the early retirement credit retroactive to September 11, 2001, after which the Reserve Component changed from a strategic Reserve to an operational Reserve.

FRA supports recommendation 5, but is unsure if this can be effectively implemented.

The Association supports recommendation 7 that seeks to improve support for service members with special dependents.

FRA welcomes recommendation 8 that attempts to improve collaboration between DoD and the VA. FRA supports a joint electronic health record that will help ensure a seamless transition from DoD to VA for wounded warriors, and establishment and operation of the Wounded Warriors Resource Center as a single point of contact for service members, their family members, and primary care givers. FRA is concerned about shifting of departmental oversight from the Senior Oversight Committee (SOC) comprised of the DoD and VA secretaries per provisions of the FY 2009 National Defense Authorization Act, to the more lower echelon Joint Executive Council (JEC) which is now responsible for supervision, and coordination of all aspects of DoD and VA wounded warrior programs. This change is perceived by many as diminishing the importance of improving significant challenges faced by service members – particularly wounded warriors and their families – in transitioning from DoD to the VA. The recommendation to provide additional authority the Joint Executive Committee (JEC) is a step in the right direction.

The Association opposes recommendation 9 that attempts to consolidate the Commissary and Exchange systems. FRA believes that commissary, exchange and MWR programs contribute significantly to a strong national defense by sustaining morale and quality of life for military beneficiaries. FRA's on-line survey (completed in February/March 2014) indicates that 61 percent of active duty respondents and more than 63 percent of retirees rated Commissary/Exchange privileges as "very important" (the highest rating).

FRA supports recommendation 10 that urges Congress to re-establish the authority to use operating funds for expanding or modifying child development centers. DoD should standardize reporting and monitoring of child care wait times, and ensure proper staffing levels. FRA claims that access to affordable, quality child care must be a high priority for all the military services. Adequate and reliable child care helps reduce stress on a military family – especially when one of the parents is deployed.

FRA wants to have further review of recommendation 11. Streamlining education benefits is laudable but there should not be any reductions to these important earned benefits.

The Association supports recommendation 12 that wants to improve service member transition to civilian life. FRA believes that transition programs should be mandatory and relevant to for

service members leaving the military. Congress should closely track these programs to help ensure success.

FRA supports recommendation 13 that pertains to financial assistance for junior enlisted service members for nutritional needs.

FRA supports recommendation 14 that expands service member dependents being approved for space available on military aircraft. FRA also supports expanding space-available travel for uniformed services retirees to include "gray area" reserve retirees and also allow surviving spouses to become eligible to use space-available travel.

FRA supports recommendation 15 that seeks to monitor active duty children academic performance, and identify support to help with academic achievement.

FRA is grateful for the opportunity to provide comments on these recommendations to this distinguished committee.

Thomas J. Snee, M.Ed,
FORCM(SW), USN, (Ret)

Thomas J. (Tom) Snee is the Twelfth National Executive Director (NED) for the Fleet Reserve Association (FRA), in Alexandria, VA. In his scope of responsibility, he serves over 60,000 Shipmates and family members; is the managing officer of the National Headquarters with authority to endorse standing rules and regulations approved by its National Board of Directors. He also serves as the Chairman for Legislative Services.

Snee was born in Cleveland, Ohio and grew up in nearby Willoughby. He graduated from Willoughby South High School in June 1965 and enlisted in the United States Navy having attended Recruit Training (boot-camp) at Great Lakes, IL. He initially served as a Yeoman, but in 1973 changed his rating to Navy Counselor. Tom retired in September of 1996 as Force Master Chief, Navy Recruiting Command, in Arlington, VA. As a Master Chief Navy Counselor (Surface Warfare) he served in many leadership and managerial positions both on ships, staffs, and shore commands. He served as Director of Training and Education for Instructors, Career Development/Counseling and Recruiting developing curricular plans and procedures for students on afloat, shore, and staff development. He is a graduate of the Navy's Senior Enlisted Academy, (Class 009, KHAKI Group), Naval War College, Newport, RI.

Following his Navy retirement, Snee worked at the FRA Headquarters as Veterans Service Officer and Membership/Branch Development. After three years, Snee switched careers becoming a Middle School Teacher for the Arlington VA Catholic Schools. His educational leadership and management responsibilities were furthered facilitated as a Middle School Lead Teacher, for student, curriculum development, analytical/course assessments and development, high school placements, and school accreditation. Mr. Snee taught Social Studies (American History, Civics, Geography, and Economics) and Religion classes, in Falls Church, and Springfield, VA, spanning over a 13 year teaching career until his retirement in June 2013.

Mr. Snee holds a M.Ed in Educational Leadership from George Mason University, Fairfax VA; BS in Liberal Arts/Psychology, Excelsior College, Albany, NY; and AS in Liberal Arts, Mohegan Community College, Norwich, CT. Mr. Snee has been a mentor for the "Leadership in the New Generations Ethics for Middle School Students", at George Mason University; currently serves on the Board of Educators at Mt. Vernon and Gunston Hall Associations, (historical sites), Alexandria, VA; on the Board of Directors, for the United States Navy Memorial, Ex-Officio; and as "Ambassador" for Excelsior College, Albany, NY.

Mr. Snee's memberships include the Knights of Columbus, Surface Navy Association, Fleet Reserve Association, Boy Scouts of America and the National Eagle Scout Association (NESA). His recognitions have been with: Covington WHO's WHO; Strathmore WHO's WHO Worldwide, Leadership/Achievement in Industry and Profession, 2013; WHO's WHO for: Executives- 2013; American Teachers- 2006; and Business Professionals-1997. Teacher of the Year, 2010-2011; Distinguish Alumni Hall of Fame, Willoughby-Eastlake Schools, Ohio.

Mr. Snee is married to the former Karen A. Habina of Willoughby, OH who works in Branch Operations, Navy Federal Credit Union, in Vienna, VA. The Snee's have four children; Janet M. Basselgia, teacher, Burke, VA; Denise J. McCready, teacher, Kittery, ME; Commander David T. Snee, U. S. Navy, OPNAV, N9I, Naval Integrated Fire Control – Counter Air Lead; and Timothy F. Snee, Manager FEDEX/KINKOs, Fairfax, VA. They also have five grandchildren and reside in Burke, VA.

APPENDIX E—STATEMENT OF THE AIR FORCE ASSOCIATION

AFA Position on the recommendations of the

Military Compensation and Retirement Modernization Commission

February 2015

AFA believes any changes to the military compensation structure should be based on a holistic assessment of the total compensation package. AFA also believes all Veterans and currently serving members of the military must be grandfathered into the current retirement system if they desire, as we must not break faith with those who entered service under current rules. We need a strong and ready Air Force to do the nations work. We will continue to work to ensure we provide our nation with an Air Force that is capable, ready and resourced appropriately for the future.

MCRMC Recommendations:

1. **Help more service members save for retirement earlier in their careers, leverage the retention power of traditional Uniformed Services retirement, and give the Services greater flexibility to retain quality people in demanding career fields by implementing a modernized retirement system**

-Proposes new retirement benefit options for the 83% of the force that do not stay 20 years, but serve at least two years.

-Empowers individual to own all or a portion of his or her own retirement, with potentially more risk.

-May provide less of a financial benefit for those service members who stay for twenty years or more than under the current system.

-The defined contribution plan only provides dollar matching through 20 years of service.

-Retention impact is unknown.

While more study is warranted on the possible effects on retention, AFA generally supports the idea of offering a transportable benefit to those who leave before 20 years of service. However, under this plan, we are concerned about keeping those whom the services need to stay 20 years and beyond.

2. Provide more options for service members to protect their pay for their survivors by offering new Survivor Benefit Plan coverage without Dependency and Indemnity Compensation offset

-Proposal does not eliminate the current SBP/DIC offset, but provides an option of a higher premium for SBP that cannot be offset.

AFA is neutral on this recommendation. It does nothing to fix the SBP/DIC offset.

3. Promote Service members' financial literacy by implementing a more robust financial and health benefit training program

AFA supports this plan especially if Recommendation 1 is adopted, which moves the responsibility of retirement decisions from the government to the individual.

4. Increase efficiency within the Reserve Component by consolidating 30 Reserve Component duty statuses into 6 broader statuses

AFA supports.

5. Ensure Service members receive the best possible combat casualty care by creating a joint readiness command, new standards for essential medical capabilities, and innovative tools to attract readiness-related medical cases to military hospitals

-An effort to ensure joint warfighting readiness gained during the Iraq and Afghanistan conflicts, including joint medical operations.
-Proposal envisions establishing 4-star Joint Readiness Command over Medical Commands
-Attempts to improve training for military mission requirements and deliver health benefits coverage to beneficiaries.

AFA believes more analysis is needed. Is this adding another layer of bureaucracy to a structure that is working well, or will it ensure the medical force maintains high operational readiness standards? AFA does not support a Joint Medical Command.

6. Increase access, choice, and value of health care for active-duty family members, Reserve Component members, and retirees by allowing beneficiaries to choose from a selection of commercial insurance plans offered through a Department of Defense health benefit program

-Allows non-Active Duty beneficiaries to choose insurance plans.
-TRICARE pharmacy program would remain and TRICARE For Life would remain as is.
-Cost shares:
-28% for active duty dependents with a nontaxable Basic Allowance for Healthcare
-20% for retirees and family members under 65 years of age, phased in over 15 years at 1%/year.
-5% for survivors and TRICARE-eligible former spouses

More analysis is needed. Without further study it is impossible to calculate the costs of implementing such sweeping change, and the effects of significantly increasing costs for beneficiaries. However, TRICARE needs improving, whether through such sweeping change or through other changes.

7. Improve support for service members' dependents with special needs by aligning services offered under the Extended Care Health Option to those of state Medicaid waiver programs

AFA supports.

8. Improve collaboration between the Departments of Defense and Veterans Affairs by enforcing coordination on electronic medical records, a uniform formulary for transitioning service members, common services, and reimbursements

-Grants the DoD-VA Joint Executive Committee (JEC) additional enforcement authorities.

AFA supports.

9. Protect both access to and savings at Department of Defense commissaries and exchanges by consolidating these activities into a single defense resale organization

-Proposal suggests changes that would keep savings for customers and continue MWR support.

AFA supports consolidation or a better business model for the commissary if the current amount of savings for customers is preserved or improved.

10. Improve access to child care on military installations by ensuring the Department of Defense has the information and budgeting tools to provide child care within 90 days of need

AFA supports.

11. Safeguard education benefits for service members by reducing redundancy and ensuring the fiscal sustainability of education programs

-Proposal increases service commitment for Post 9/11 GI Bill, eliminates other GI Bill programs, eliminates housing stipend for dependents, eliminates unemployment compensation for those receiving housing stipend, yet keeps transferability.

AFA supports, but believes proposal should grandfather those who have already signed contracts.

12. Better prepare service members for transition to civilian life by expanding education and granting states more flexibility to administer the Jobs for Veterans state grants program

AFA supports.

13. Ensure Service members receive financial assistance to cover nutritional needs by providing them cost-effective supplemental benefits

AFA supports.

14. Expand Space-Available travel to more dependents of Service members by allowing travel by dependents of Service members deployed for 30 days or more

AFA supports.

15. Measure how the challenges of military life affect children's school work by implementing a national military dependent student identifier.

AFA supports as long as privacy is assured and the information is used for no other purpose than measuring the challenges of military life.

APPENDIX F—STATEMENT OF THE COMMISSIONED OFFICERS ASSOCIATION

Commissioned Officers Association
of the U.S. Public Health Service

February 20, 2015

The Hon. John McCain
Chairman

The Hon. Jack Reed
Ranking Member

The Hon. Lindsey Graham
Chair, Personnel Subcommittee

The Hon. Kirsten Gillibrand
Ranking Member, Personnel Subcommittee

Dear Armed Services Committee Chairs and Ranking Members:

The Commissioned Officers Association of the United States Public Health Service (COA) represents active duty and retired officers of the United States Public Health Service (PHS), a unique uniformed service that fights disease in the United States and throughout the world. PHS officers, for example, deployed by the thousands after Hurricanes Katrina and Rita and Tropical Storm Sandy. Almost 900 PHS officers served in Iraq and Afghanistan. Hundreds deployed to the US-Mexico border to provide medical care and treatment to the unaccompanied minors who streamed into our country. And 200 PHS officers have deployed to Liberia, where they continue to staff a 25-bed hospital and treat Liberian healthcare workers who have contracted Ebola.

The PHS commissioned corps is different from the military services in that it is comprised entirely of commissioned officers; there are no NCOs or other enlisted personnel in the commissioned corps. Some 75% of officers who are commissioned into the corps remain in service for at least 20 years, unlike the military services, in which only 49% do so. This statistically-different career rate most assuredly affects our analysis of the Commission's proposals, though we believe that our conclusions about individual proposals are also applicable to the other uniformed services. We applaud the work that the Commission devoted to its study, and we very

much appreciate that the Commission included all seven Uniformed Services in its analysis and recommendations.

We at COA appreciate your invitation to submit our thoughts about the recommendations of the Military Compensation and Retirement Modernization Commission (MCRMC). There are certain recommendations that we can support wholeheartedly, and there are some recommendations that would attract our support only if they were modified significantly. Further, we believe that there are areas of the report where the Commission's analyses and conclusions are suspect. What follows are our views on the specific recommendations of the Commission.

Recommendation #1. Retirement.

We understand that this proposal would only affect those who join one of the uniformed services after the date of enactment of these changes in the retirement system; therefore there is nothing inherently unfair about making any pension changes the Congress deems acceptable and necessary. We would caution, however, that there are two aspects to this proposal that we do not believe have been adequately explored by the Commission and which we would urge the Congress to consider.

First, this proposal shifts retiree financial risk from the United States government (USG) to the retiring servicemember, in that a significant portion of the new retirement benefit would be based on stock market performance. As we have seen over the past half a dozen years, such performance can neither be guaranteed nor anticipated. That may be a consequence the Congress is willing to accept in the interest of paying for a benefit for those who do not serve a full twenty-year career, but it may have enormous consequences for those servicemembers who do not choose to invest the maximum into their 401(k) accounts and for all prospective retirees if the stock market does not perform as the Commission anticipates it will. It also raises the question as to what the mind-state of an SM might be if he or she were on a deployment and they suddenly learned that

because of a precipitous loss in the stock market--something we have seen several times in recent years—their retirement benefit and their financial security had taken a disastrous hit. It is a certainty that adverse personal financial events affect the morale and mental well-being of everyone—not just servicemembers—but adding uncertainty to an SM's retirement benefit might well be one of those second-order effects that the Commission did not consider.

Second, this proposal reminds us most eerily of the 1986 "REDUX" retirement system. The difference is that while REDUX provides a 40% pension benefit at 20 years of service and a 75% benefit at thirty years, the Commission's proposal caps the pension at 60% after 30 years. Though REDUX did not apply to those already serving at the time of enactment—just like the Commission's proposal—by 1999 the Joint Chiefs of Staff determined that it was having a serious negative effect on both recruitment and retention. In a letter to the Chairman (John Warner) and the Ranking Member (Carl Levin) of the Armed Services Committee in 1999, the Director of the Congressional Budget Office wrote that, "The Joint Chiefs of Staff have made repeal of REDUX their number one readiness priority. To the extent that repeal has become a symbol of the nation's commitment to its military personnel, failure to repeal REDUX could have a strong negative effect on the morale and possibly the retention of military personnel, at least in the short run."

The JCS went before the Congress and raised their concerns about REDUX, and Congress heard them. REDUX was made optional in 2000. This historical lesson, it seems to us, is applicable today, and we urge the Congress to consider the full implications of the Commission's retirement pay proposal. It appears that the Commission is going out of its way to discourage servicemembers from remaining on active duty after 20 years, both because of the lack of enhancements to retired pay that even REDUX provides, and the lack of a government match to the 401(k) after 20 years. We can see the Commission's proposal leading ultimately to problems with recruitment and retention, though there is no way to measure such at present. We suggest that the Congress could learn from the REDUX example and provide an enhanced multiplier (i.e., greater than 0.02) for

those who serve between 21 and 30 years as well as providing a government match to the 401(k) after 20 YOS.

We are, in fact, surprised and disappointed that the Commission did not study this likely effect of their retirement proposal. Some 75% of PHS officers who enter service stay a full 20 years, with a slightly smaller percentage staying to 30 YOS. This is substantially higher than the rate for commissioned officers in the military services (i.e., 49%; Report, p. 23) and reflects the nature of the commissioned corps of the PHS. We therefore suggest that the Congress ask the Commission—or some other group--to provide an analysis of the retention impact on officers who have served a creditable 20 years. What are the services' requirements for officers serving in the 21-30 YOS timeframe, and how would the Commission's proposals affect retention of them? The American taxpayer, after all, has made a considerable investment in getting these officers to the 21-year mark, and it is generally thought that years 21-30 are when the services reap the fullest benefits of this investment.

Finally, we believe that the Commission has substantial flaws in the way it demonstrates that the typical SM would realize greater financial benefit from the proposed retirement plan than he or she would under the current defined benefit plan. We question, as does the *Army Times* newspaper of 16 February, the assumptions behind the "discount rate" that the Commission uses when it evaluates the future value of today's pension benefit. For example, the Commission used a discount rate of 12.7% when it calculated the future value of the current pension of a retiring E-7. For the retiring O-5, which would be the grade at which many PHS officers would be affected, the Commission used a discount rate of 6.4%. First of all, having two different discount rates is not actuarially defensible. It is explained by the Commission as resulting from surveys of servicemembers. According to *Army Times* (16 February, p. 10), "the figures reflect the perceived value of the benefit, rather than an objective value." Such a manner of calculating actual value is totally indefensible and is the equivalent of resorting to smoke and mirrors to reach the outcome you are seeking.

Using a discount rate is proper, as it takes into consideration future inflation and reduction in value in current dollars. There are, however, two things wrong with the Commission's approach: (1) military pensions

are indexed for inflation, and (2) the Commission used an excessively-large discount rate. According to the private sector actuaries consulted by *Army Times*, the proper discount rate should have been around 2-3 percent because the US government is the pension guarantor. We believe that that Commission's methodology greatly undervalues the current pension, no matter the grade at which an SM retires, while exhibiting unqualified exuberance for a stock market-based retirement benefit.

As stated above, the Commission's figures were arrived at by using what was described as a "perceived value of the benefit, rather than an objective value." This "perceived value" was derived by surveying SMs as to what they think the current and proposed plans are worth. There is an inherent and fatal flaw in this methodology over and above the fact that no trained actuary would use such, in that the Commission itself, in its third recommendation on financial literacy, recognizes and emphasizes that current SMs really do not understand financial choices well enough to make an informed and responsible decision as to what is best for them. So how, we ask, could the Commission rely on current servicemember financial perceptions as the basis for their pension comparisons?

With respect to the Commission's recommendation for a US government contribution to a 401(k) plan, it should be noted that SMs have been able to contribute to the USG Thrift Savings Plan without a government match since the year 2000. Under the Commission's proposal, the USG contribution to the 401(k) would only be 1% through 2 YOS, rising to a possible 5% only if the SM puts that amount into the 401(k). The USG contribution would end at 20 YOS, meaning that for career SMs, the USG contribution is zero for years 21-30. We suggest that if the Congress adopts the 401(k) proposal, it consider mandating a USG matching contribution for years 21-30 of the servicemember's career, rather than only for years 3-20.

We believe that the Committee also consider whether the Commission's proposal would have a deleterious effect on transition of SMs to the National Guard or federal Reserve. With the current system, an SM who serves 8 or 10 years might well decide that they want to join one of the reserve components and serve the

balance of a 20-year career in order to realize some financial benefit from their time in uniform. If they can walk away with a 401(k) nest egg, they might decide that joining one of the reserve components is not worth it financially. We do not believe that the Commission has adequately accounted for this potentially-deleterious effect on Reserve Component (RC) recruitment.

Overall, we believe that the Commission's Recommendation #1 represents a defensible change in the retirement plan for members of the uniformed services, but we can see the potential for significant second and third order effects that the Commission did not discuss. Recruitment and retention, for example, could pose definite challenges for both the Active Component and the Reserve. We also believe its provisions might well encourage a mass exodus from the services after 20 YOS, thus depriving the uniformed services of senior leadership, and we do not believe that the Commission has addressed this "rank-and-experience drain." The REDUX experience taught us that money matters and that pension benefit percentages matter, and it would be well if we paid attention to lessons learned from that not-so-long-ago historical lesson.

Recommendation #2: Survivor Benefit Plans (SBP)

We at COA largely support this recommendation. We believe that the services should offer the option of a non-subsidized SBP that does not result in an offset for the VA's Dependency Indemnity Compensation.

Recommendation #3: Financial Literacy

We concur with the Commission that SMs need more financial literacy, regardless of whether or not they will be compelled to make the types of financial decisions that would be required under the Commission's proposals. We question the value of group financial literacy sessions, which is what we have been told by Commission staff is the likeliest manner in which such education would be effected. The preferred method of having such discussions is one-on-one.

Recommendation #4: Promote Efficiency within the Reserve Components RC)

We support this recommendation for decreasing the number of types of orders used for RC members. We do not know whether the Commission's proposal contains the correct number of types of orders for RC personnel, but we believe (as an organization that has two current or former reservists in its hierarchy) that the current system needs simplification.

Recommendation #5: Joint Readiness Command

We support the idea of a Joint Readiness Command, to be led by a 4-star officer. We question why the Commission omitted any discussion of how the Surgeon General of the United States or the US Public Health Service would fit into the work of this command. The PHS provides a significant asset for any USG response to medical needs, as has been demonstrated by the deployment of PHS officers to Liberia as the only USG medical personnel who have actually treated Ebola patients in West Africa.

Recommendation #6: Healthcare

We at COA support this proposed change in the current healthcare delivery system for servicemembers. We believe, as does the Commission, that the current TRICARE system is largely unworkable, that it is not responsive to the needs of SMs and their families, and that its reimbursement rates to healthcare providers is such that many private sector providers will not take TRICARE patients. We believe that the Commission's recommendation to have active duty SMs receive their healthcare at Military Treatment Facilities (MTFs) is sound, with the caveat that approximately 40% of PHS officers serve in such remote duty locations that they currently access their healthcare through TRICARE Prime Remote.

The Commission's report suggests (p. 113) that members of the Public Health Service and their

dependents would receive healthcare benefits through the proposed TRICARE Choice, though it was not clear to us whether this really was meant to include PHS officers on active duty. In the 11 September hearing before the House Armed Services Committee, former JCS vice Chairman ADM Edmund Giambastiani, USN (Ret.) responded to a Member's question about remote care by stating that active duty SMs who serve in locations where there is no MTF would be able to access their care through the Commission's proposed TRICARE Choice plan. If this be the case, then it would resolve our concerns about PHS officers who serve in locations that are fifty miles or more from MTFs.

We especially like the Commission's proposal to remove active duty SM dependents from the MTFs and provide them access to a system that would parallel the Federal Employee Health Benefits plan currently used by civilian federal employees. Because we have found that TRICARE as currently configured and managed does not pay for dependent care that is consistent with private sector care, we believe this would be a significant improvement in benefits for the dependents of active duty SMs. We point out that TRICARE does not even currently pay for certain procedures and tests that are accessible to SM dependents through MTFs, though they are standard and not "exotic" treatments or tests. The Commission proposal would eliminate this discrepancy.

Recommendation #7. Servicemembers with Special Needs Dependents

COA strongly supports this recommendation. We thank the Commission for taking a hard look at the piecemeal coverage currently available to uniformed services dependents with special medical and educational needs. We also thank the members of this Committee, especially Sen. Kirsten Gillibrand, for their leadership in this area.

For several years, the collective face of this issue has been children with various disorders "on the autism spectrum," as well as children with developmental disabilities other than autism. Thanks largely to

continued interest and firm direction from the SASC, TRICARE has increased coverage of applied behavior analysis (ABA) for autistic children. But more must be done. ABA should be available to children with other developmental disabilities. Other pressing needs include access to respite care (the Commission cites waiting lists up to four years), transportation, and supplies and durable medical equipment. Above all, medical care provided to dependents of uniformed services personnel must keep current with the evidence-based recommendations of civilian medical experts and institutions, e.g., the American Academy of Pediatrics.

TRICARE's Extended Care Health Option (ECHO) was originally set up to replace state Medicaid waiver programs, for which uniformed services' dependents were not eligible. But the Commission found that the ECHO program is "not robust enough" to do that job and fulfill that need. It recommends aligning services under ECHO to those of state waiver programs.

COA wants to see this recommendation adopted both for its own sake and as part of a broader effort to improve the care available to children in uniformed services families. In a report issued last summer, the Defense Department acknowledged significant gaps in coverage and said it lacked sufficient data to evaluate pediatric care in several areas. The report concluded that access to care for pediatric patients was "adequate," but advocates argued that "adequate" is not good enough. COA agrees.

Recommendation #8: Improve Collaboration between DoD and the VA

We support this recommendation for greater coordination between the Defense Department and the Department of Veterans Affairs, especially with regard to the ability to exchange electronic records. With regard to merging the two drug formularies, we support this proposal with the caveat that any merged formulary should mirror that of DoD, and not the much-smaller VA formulary.

Recommendation #9: Combine Military Exchanges and Commissaries into One Entity

We do not support this recommendation, as the two entities operate on different business models, and we believe that the Defense Department would use such a merger to decrease the benefit of the commissary. It is clear from press reports that the Defense Department wants to cut the commissary benefit by reducing the subsidy and decreasing commissary staffing and hours of operation. Exchanges operate as discount department stores, with profits going into military Morale, Welfare, and Recreation funds. Commissaries operate as a true benefit to servicemembers. Neither entity can be justified today as absolutely necessary for the well-being of the force, as both exchanges and commissaries grew up to serve a force that was scattered around the country in areas where there were limited shopping opportunities for either groceries or hard goods. Such is clearly not the situation today. Exchanges operate largely on non-appropriated funds, while commissaries receive a DoD subsidy and levy a 5% surcharge on grocery items that are sold at cost. Surveys have shown that SMs and their families regard both exchanges and commissaries as benefits of service, but that commissaries are seen as being much more valuable than exchanges.

We believe that merging the exchanges and commissaries would inevitably result in higher prices at commissaries, to the detriment of this benefit. We also do not believe that either the Commission or anyone else can determine with any degree of accuracy the savings that might accrue from a merging of the back-of-store operations of the exchanges and commissaries, as estimates of such savings cited by the Commission (Pp. 146-47) range from $151 million to $664 million per year. The magnitude of difference in such estimates makes us believe that they are no more than guesses. We would leave the present system of exchanges and commissaries as they are today.

Recommendation #10: Improve Access to Childcare on Military Installations

We largely support the Commission's recommendations, adding the comment that there is a dearth of childcare slots throughout the uniformed services community, and that we welcome any changes that would

increase their number.

Recommendation #11: Safeguard Education Benefits for Servicemembers and Their Dependents

We believe that the education benefit in the Post-9/11 GI Bill is a significant tool for recruitment and retention and should be retained as is. We therefore oppose several of the Commission's recommendations on education benefits.

We strongly disagree, for example, with the Commission's recommendation (p. 171) that, "Congress should approve a Sense of the Congress resolution affirming that DoD and the Military Services may approve or deny requests to transfer Post-9/11 GI Bill benefits in such a way that encourages retention of individuals in the Military Services, and recommending that they be more selective in granting transferability of Post-9/11 GI Bill benefits." We believe this is one of the most bone-headed recommendations in the entire report. If the Commission is attempting to hurt recruitment and retention, this is a wonderful way to do so. Encouraging DoD and the Services to deny GI Bill transferability is precisely the wrong message to send to the field. This is an earned benefit, and though the authority to deny transferability is included in present law, we are unaware of any instances where such authority has actually been exercised.

The Commission also recommends that dependents who have received transferred GI Bill benefits not receive the Basic Allowance for Housing that is currently provided them. The Commission's justification for this proposal (Pp. 167-68) is based on assumptions that conflate the cost of attending college with what is paid to the SM dependent. Today's BAH currently supplements the $19,198 maximum the GI Bill pays for tuition and fees and actually allows someone to attend college in a fully-funded manner. It seems to us that the Commission does not recognize the potent tool that the Post 9/11 GI Bill offers for both recruitment and retention, and its proposals to diminish or undermine it are simply out of touch with reality.

Commissioned Officers Association
of the U.S. Public Health Service

Recommendation #12: Better Prepare Servicemembers for Transition to Civilian Life

We support this proposal.

Recommendation #13: Provide Food Assistance to Servicemembers as Necessary

We support this proposal.

Recommendation #14: Expand Space-A Travel Benefits

We support this recommendation.

Recommendation #15: Measure how Challenges of Military Life Affect Dependent Schoolchildren

We support this recommendation with the suggestion that the survey include not just the dependents of active duty SMs, but also the dependents of members of the Public Health Service, NOAA, the National Guard and the federal Reserve components. It is conceivable that dependents in all of these categories might be affected by their parent's service, but we will not know for sure until the data are gathered.

James T. Currie

Col. James T. Currie, USA (Ret.), Ph.D.
Executive Director

APPENDIX G—STATEMENT OF THE CONCERNED VETERANS FOR AMERICA

CONCERNED VETERANS FOR AMERICA

To: United States Senate
Committee on Armed Services
Washington, DC 20510-6050

March 23, 2015

Dear Sirs,

Thank you for reaching out to *Concerned Veterans for America* for our opinions on the recommendations from the Military Compensation and Retirement Modernization Commission. We believe that the recommendations from the Commission shed much-needed light on extremely important issues surrounding military compensation that have not received enough attention in the past. In this regard, the report is an extremely important document that demands immediate attention.

We share the concerns that compelled the creation of Commission and our thinking is largely aligned with the recommendations laid out in their report. Their report and recommendations are well thought-out and should receive immediate Congressional considerations in regards to reforming military compensation and retirement.

Below is our response to your letter from February 4, 2015 on the recommendations of the Military Compensation and Retirement Modernization Commission. Please do not hesitate in reaching out to me, or our policy department, for further explanation or with questions.

With Regards,

Pete Hegseth
CEO, *Concerned Veterans for America*
phegseth@cv4a.org
651-464-1510

CONCERNED
VETERANS
FOR AMERICA

CVA Commentary on MCRMC proposals

1. Modifying the Military Retirement Plan

We believe that the proposed modifications to the military retirement system are well thought out and should be adopted by the Department of Defense. We feel these proposals would be beneficial to our service members and represent a good roadmap towards improving the military retirement plan. The changes proposed by the Commission address two concerns that Concerned Veterans for America has about the current military retirement system: fairness and flexibility.

The current retirement system is inherently unfair and does not serve the majority of the people that serve in the Armed Forces. As it is, the incentives are skewed towards the minority that completes over twenty years of service and is able to have their retirement benefits vested. In the current arrangement, the majority of service members are largely subsidizing a minority that actually receive retirement benefits. The system needs to be changed to address this unfairness and to work for a majority of the service members.

The second important point is the flexibility that is largely absent in the current retirement system. Cliff vesting combined with the defined benefit system creates an inflexible retirement plan, where service members are punished for leaving the service and pursuing second careers. The adoption of the recommendations from the Commission, especially the move towards a defined contribution system, would create that flexibility.

The current military retirement system was built during a time period where there was less career mobility and less overlap between military and private sector skills. That reality has changed and made the retirement system outdated and in some cases counter-productive. The concept of golden handcuffs, where planners use the retirement system as a leverage for different posts, creates morale problems and a lack of a true meritocracy.

The civilian job market has moved away from defined benefit retirement systems towards defined contribution systems and in some cases a mix of both systems. This will make the learning curve less steep than it would be otherwise during the transition period. The Commission's proposals tap into the current private sector system, which will enable the service members and society in general to easily understand the changes and the new system.

There are better management tools that the Armed Forces should leverage when dealing with retention. The newest generation of volunteers in our military have expectations when it comes to developing their careers and their assignments that are impossible to meet under the current retirement system. It is for this and the previously aforementioned reasons that CVA enthusiastically support the MCRMC's suggested modifications to the Military Retirement System.

2. Modifying Survivor Benefit Plan (SBP) Options

CVA supports the proposed modifications to the Survivor Benefit Plan Options. The Commission's recommendations would enable the service members and their families to make more informed decisions – especially in regards to the interplay of those benefits with the VA's Dependency and Indemnity Compensation payments. The recommendations include an important education component when it comes to enabling the service members and their families to assess the options that would be available to them.

3. Improving Financial Literacy

CVA supports the strengthening of financial literacy programs at the Department of Defense. The increased choices that would be implemented through the recommendations of the Commission will have a learning curve and we believe that having more financial literacy programs would help bend the learning curve. The service members would benefit from increased financial literacy and awareness of the possibilities for organizing their finances.

4. Reserve Status Consolidation

CVA supports the consolidation of the reserve statuses. The proposed consolidation would simplify the experience for the reserve component of the force while enabling them to make a smoother transition from reserve to active components. These changes would be beneficial for both the service members and the Department of Defense.

5. Establishment of a Joint Readiness Command

CVA agrees with the assessment of the problems of the current health care system provided by the military and in the maintenance of medical readiness. Additionally, CVA shares the concerns regarding readiness for medical professionals employed by the Department of Defense and we support to concept of enabling the Military Treatment Facilities to serve other populations to preserve their medical capabilities. Nonetheless, we are not convinced that the reorganization into a four-star command would be the best option to achieve the stated goals. Even though we agree with assessment and the goals explored by the Commission, we do not believe that concentrating the functions in a four-star command would guarantee the improvements in medical readiness.

6. Modifying the Healthcare Plan

Concerned Veterans for America fully and enthusiastically supports the proposed changes to the military health care system. The access and availability issues described by the report mirror our assessment of the current military health care options. Additionally, the current cost structure is unsustainable and encourages individuals to over utilize health care services which does not necessarily result in better health outcomes. In this regard, the health care plans of the Department of

Defense need to be restructured in order to meet the needs of our service members and to reduce the growth of health care expenses within the defense budget.

The BAHC and OPM-managed health care marketplace would enable service members to shop for commercial insurance plans, which aligns with our thinking on how health care should be provided to our active duty service members and veterans. The mechanism is similar to the premium support model that our Fixing Veterans Health Care Taskforce developed in our recommendations for improvements in veterans' health care (taskforce.cv4a.org). We believe that it would be appropriate to have a similar model and operation for active duty service members.

The Commission's assessment that the TRICARE system is in need of reform and re-thinking of its structures is correct. In and of itself, the disconnect between the DOD-sponsored health care plans and changes in the civilian health care system is a good indicator that there is a need to reconsider how the military provides health care to service members and their families. This is why the Commission explores the different benchmarks in health care outcomes and usage between the current military system and the civilian counterparts. We believe that adopting the recommendations of the Commission would be a great step forward in terms of empowering the service members to find healthcare plans that actually suit their needs.

7. Modification of the Extended Care Health Option (ECHO) Benefit

Concerned Veterans for America has no opinion on the modification of the Extended Care Health Option benefits.

8. Modifying Department of Defense and Department of Veterans Affairs Collaboration

Concerned Veterans for America is cautiously supportive of the proposed modifications to the collaboration efforts between the Department of Defense and the Department of Veterans Affairs. The difference between the Commission's proposal from previous efforts is not substantial enough to allow us to fully support the proposal.

The finding from the Commission that the organizational relationships that exist between the two departments are personality driven rather than organizational driven is correct. This is an important indicator of the cultural problems that plague the bureaucracies of both the Department of Defense and the Department of Veterans Affairs. Regardless of the organizational structure, when there are individuals willing to make the collaboration take place, only then will there be progress in collaboration between the DoD and VA. In this regard, CVA believes that the type of changes necessary to create more collaboration and interoperability between the DOD and the VA will be more profound and more focused on culture than the ones proposed by the Commission's report.

9. Combining the Commissaries and Exchange Systems

Concerned Veterans for America supports the proposal to combine the commissaries and post-exchange systems into one entity. We share the Commission's belief that in order to continue to deliver value to the service member while being good stewards of taxpayer resources, the best path forward is to merge commissaries and exchange Systems into one entity.

10. Modifying the Childcare Benefit

CVA has no opinion on the recommendations from the Commission's report on modifications to the childcare benefit.

11. Modifying the Education Benefit

Concerned Veterans for America supports the changes to veteran educational benefits recommended by the Commission. Consolidating the benefits under one single program will make it easier for the service members to access them while making it easier for the VA to manage them. Additionally, the post-9/11 GI Bill offers more generous benefits when compared to other educational programs run by VA.

12. Making Transition Assistance Programs Mandatory

CVA does not support the concept of making transition assistance program mandatory. Transition Assistance Programs require that the service members be engaged and willing to listen and take action in order to be effective. Making these programs mandatory will not necessarily increase the benefit that is going to be delivered to the service member- rather the opposite is likely. By making the program mandatory, it will be harder to ensure that the service member has bought into the system or the possibilities of actually leveraging the available programs for oneself.

Nonetheless, CVA supports the Commission's report suggestions to strengthen the transition assistance programs and making them more adequate towards the current economy and job market. There are considerable gaps on the important task of enabling service members to better translate their military service experience to forms that are widely recognized in the job market.

13. Discontinuing the Family Subsistence Supplemental Allowance (FSSA) Benefit

Concerned Veterans for America understands the reasoning behind discontinuing the FSSA benefit. Nonetheless, it does not addresses the underlining problems that are discussed in the Commission's report. Service members and their families should not have to rely on these benefits to provide for their families. This is why we strongly support the recommendation that DOD needs more data on the usage on SNAP by service members. We believe that it would be a good course of action to obtain this data before proceeding with changes to either program. It is important to accurately assess the level of dependence that service members have on these programs.

14. Changes the Eligibility for Space Available Travel

Concerned Veterans for America supports the changes allowing unaccompanied dependents to use Space-A travel under priority category 4. We believe that this measure would increase service members' quality of life without creating an excessive budgetary burden.

15. Establishment of a Military Student Identifier

CVA has no opinion on the establishment of a military dependent student identifier.

APPENDIX H—STATEMENT OF THE ENLISTED ASSOCIATION OF THE NATIONAL GUARD

EANGUS

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March 27, 2015

The Honorable John McCain
Chairman
Senate Armed Services Committee
Washington, D.C. 20510

The Honorable Jack Reed
Ranking Member
Senate Armed Services Committee
Washington, D.C. 20510

The Honorable Lindsey Graham
Chairman, Personnel Subcommittee
Senate Armed Services Committee
Washington, D.C. 20510

The Honorable Kirsten Gillibrand
Ranking Member, Personnel Subcommittee
Senate Armed Services Committee
Washington, D.C. 20510

Dear Chairmen and Ranking Members:

On behalf of the members of the Enlisted Association of the National Guard of the United States, I want to thank you for the opportunity to express our views regarding the Military Compensation and Retirement Modernization Commission's fifteen recommendations. We are the only military service association that represents the interests of every enlisted soldier and airman in the Army and Air National Guard. With a constituency base of over 414,000, and a large retiree membership, the Association engages Capitol Hill on behalf of courageous Guard persons across this nation.

The Commission was created by the 112th Congress when it passed the National Defense Authorization Act (NDAA) for Fiscal Year (FY) 2013 (Public Law 112-239). Public Law 112-239 directed the Commission to look for ways to incentivize servicemembers to remain in the force for twenty years. Made up of eight Commissioners, four appointed by the President, and four by the Chairmen and Ranking Members of the Senate and House Committees on Armed Services that presided during the 112th Congress, the Commissioners and their staff worked diligently to provide its final report. The Commission interviewed current service members, retirees, veteran service organizations, and military service associations, among others. The

result of the three year effort is a 302 page document that Congress is asked to consider as a packaged deal.

The Association understands that Congress' consideration of such sweeping recommendations, as a whole, will be challenging considering the timing of the report in relation to your Committee's drafting of the FY16 NDAA. Should Congress choose to adopt the Commission's findings, in their current form, without amendments, the Association would not object. However, the Association would like to see Congress make changes to the Commission's final report prior to adoption and our concerns are highlighted in the enclosed document.

Thank you again for allowing our input on these important recommendations as the Committee looks to reform military compensation and retirement. We stand willing to work with you and your staff as the Committee considers the Commission's findings.

Sincerely,

Chief Master Sergeant John Harris, (Ret.)
President, EANGUS

Attachment

Senate Armed Services Committee
Military Compensation and Retirement Modernization Commission Recommendations
Enlisted Association of the National Guard of the United States (EANGUS)

Recommendation 1. Modernize Military Retirement

The current Uniformed Service retirement system is a useful retention tool for midcareer servicemembers, but does not provide retirement savings to the overwhelming majority of servicemembers. Under the current system, 83 percent of the enlisted men and women serving our Nation will never benefit from a traditional 20-year Uniformed Service retirement. The Services' retirement system should be restructured to provide retirement benefits to more than one million current servicemembers who would otherwise leave service without any Government-sponsored retirement savings. This recommendation blends the recruiting benefits of a modern 401(k)-type plan, with the retention benefits of the current retirement annuity, lump sum career continuation pay, and retention bonuses paid at important career milestones in the lives of servicemembers. It would also sustain, and may improve retention and increase lifetime earnings of retirees.

Association Response to Recommendation 1:

The association supports this recommendation. Too few benefit from the current military retirement plan. In fact, the Commission found that 83 percent of enlisted members do not benefit from the 20-year Uniformed Service retirement at all. We agree with the Commission's conclusion that by giving servicemembers the benefits of a 401(k)-style retirement plan would incentivize millennials to join and retain currently serving members should they opt in to the new plan. The Commission asserts that millennials prefer flexible retirement accounts and like to have more control of their investment.

If this recommendation is not adopted, the association requests that the committee consider expanding the retirement system in its current form. Mainly, servicemembers have the ability to opt into a Thrift Savings Plan (TSP) account but few choose to utilize TSP because there is no government matching of their contributions. The association believes that if servicemembers received matching contributions, more would opt to open a TSP account. Tweaking the current system might be a way to incentivize servicemembers to save for retirement without overhauling the retirement process. Accordingly, it would make sense to vest individuals after two years of service to ensure that those who decide to leave have some funds set aside for retirement.

Recommendation 2. SBP-DIC Offset

The Survivor Benefit Plan (SBP) has steadily become more attractive as a low cost way to provide lifetime benefits to retirees' survivors. The Commission received many servicemember complaints about SBP because of the associated offset from VA Dependency and Indemnity

Compensation (DIC). To help address this concern, a new SBP option should be implemented for which servicemembers would fully fund SBP costs but would no longer be subject to the DIC offset. The existing SBP program with the DIC offset should be maintained for servicemembers who want to retain lower cost coverage.

Association Response to Recommendation 2:

The Survivor Benefit Plan (SBP) gives retiring servicemembers the option to provide a lifetime monthly annuity to qualified survivors. SBP provides survivors an annuity equal to 55 percent of the base retirement pay the servicemember elects to cover. Servicemember's retired pay is reduced by 6.5 percent of the base amount elected. The premium for plan participation is deducted from retired pay before taxes. SBP payments are taxable.

Survivors of retirees may also be entitled to Dependency and Indemnity Compensation (DIC) payments from the Department of Veterans Affairs (VA), if the servicemember died from: a disease or injury incurred or aggravated in the line of duty while on active duty or active-duty training; an injury incurred or aggravated in the line of duty while on inactive duty for training; or a disability compensable under laws administered by VA. DIC payments are nontaxable.

A survivor is generally restricted by law from receiving the full amounts of both SBP and DIC benefits (10 USC § 1450) even though the two payments are unrelated—one is a pension designation and the other is veterans compensation for disability resulting in death. Our association supports repeal of any offset and full payment of both SBP and DIC to survivors.

Recommendation 3. Promote Servicemembers' Financial Literacy

The lack of choice in current pay and benefit programs results in complacency and insufficient knowledge among servicemembers with regard to managing their personal finances. According to the 2013 Blue Star Families Annual Lifestyle Survey, only 12 percent of servicemember respondents indicated they received financial information from their command or installation. The Department should increase the frequency and strengthen the content of financial literacy training. This enhancement is especially important because the Commission's recommendations on retirement and health care require new financial decisions to be made by servicemembers. Improved financial literacy would also assist servicemembers from being exploited by predatory lenders and other financial manipulators and would better educate and prepare those that transition to the private sector after leaving the force.

Association Stance on Recommendation 3:

Congress required DOD to initiate a financial literacy program in 2006 with the institution of 10 USC § 992. At the time, there was a proliferation of military members possessing poor money management skills and extensive use pay day lenders who charged extremely high interest. In 2006, Senators Jim Talent and Bill Nelson sponsored legislation which was included in the NDAA to limit the amount of interest pay day lenders could charge military members. The

Department implemented the law by designating personal finance program managers at the Service level, and contract financial counselors at each installation. Many of the financial counselors are AFC® certified. However, the scope of their practice is limited by DOD to financial basics (savings, budgeting), correcting a credit report, developing a debt repayment program, understanding bankruptcy, and navigating emergency financial assistance organizations. However, DOD did not allow financial counselors to perform any financial, investment, or estate planning, which would be vital in planning for retirement. For the National Guard, there was one financial counselor at each Joint Force Headquarters to service the entire population of members in that State. Additional on-demand counselors were available using local certified (CPA, CFP®, ChFC®, AFC®) professionals for large scale events such as deployment round-robins. In addition, Military One Source provides very limited financial counseling via telephone (no more than 15 minutes).

Further, due to projected downsizing of the active military forces, the VOW Act of 2011 required the inclusion of personal financial management training as an integral part of the Transition Assistance Program (TAP). Already burdened personal financial counselors at the installation or state level were tasked with the additional requirement of pitching a 5 hour block of instruction on personal finances solely dedication to transitioning military members who were exiting the military.

Additionally, there is currently no nationally accepted standard or metric to measure financial literacy. The Commission recommendation requires Defense Manpower Data Center (DMDC) to survey the force to establish a benchmark to evaluate and update financial literacy training. However, updating the training is not a real indicator of the literacy or ability of servicemembers to manage their finances or future retirement and this requirement could set up DMDC to fail.

Transfer of responsibility. The Commissioners testified before Congress that the inclusion of financial literacy training in their recommendations was because of the onus of financial and retirement planning being shifted from DOD to the individual. Under a defined benefit plan, DOD plans for the individual's retirement. Under the hybrid plan, the individual military member will now need to have requisite financial planning skills early in their military career to manage their TSP investment portfolio, have the financial discipline to invest and not squander the lump sum career continuation payment, and continue to manage their investments until and after retirement. To reap the intended retirement benefit recommended by the Commission, the hybrid defined contribution and defined benefit plan must be explained, understood, and executed by the military member as early as year one of their service. This recommendation relies heavily on financial literacy training by parents and the secondary school system prior to entering the military or the military financial counselors when the military member is at the least likely time in their life to be concerned about retirement. The onus on the military member is great—and lacking the motivation and education, the member will miss out on the benefits of compounding interest in their investment account (TSP) to gain the value of the hybrid retirement plan offered by the Commission.

Additional cost. In addition, the cost to DOD to implement expanded financial and retirement planning to military members will be substantial. Certified financial professionals have the skill sets to execute the new planning requirement. However, in addition to the requirements of 10 USC § 992 and Goals, Plan, Success (GPS)/TAP, the counselors will have to personalize each plan based on the individual's financial situation, requiring a sizable increase in the number of certified financial planners at each installation/state and investment of operations and maintenance funds by DOD in hiring civil service, non-appropriated fund employees, or contract financial counselors. The current construct of one financial counselor per installation or state will be insufficient.

Our association generally supports the recommendation for increased financial literacy. However, our association is greatly concerned that, in times of decreasing budget availability and flexibility, the program will be underfunded and fall short of its intended benefit. In addition, it may be difficult to find and employ enough certified financial counselors to adequately service the intended population.

Recommendation 4. Increase efficiency within Reserve Component status system

Despite the Services' operational dependence on the Reserve Component (RC) during the recent conflicts in Iraq and Afghanistan, the current RC status system "is complex, aligns poorly to current training and mission support requirements, fosters inconsistencies in compensation, and complicates rather than supports effective budgeting." The RC status system causes members to experience disruptions in pay and benefits as they transition among different duty statuses. Mobilization difficulties also impede operational commanders who need to employ RC personnel. There are 30 unique statuses under which RC members can be called to duty. The number of duty statuses should be streamlined to just six to benefit servicemembers and ease the Services' management and operational use of RC forces.

Association Stance on Recommendation 4:

The Commission report condenses the existing 30 duty statuses into six: active duty, inactive reserve service, federal service (Presidential call-up for domestic emergencies), full-time National Guard, inactive National Guard, and active duty for Coast Guard. For Reserve Components, it states that the three primary statuses would be active duty, inactive duty, and full-time National Guard duty. The Commission recommends that orders are only issued when the authority changes, and that when duty status, purpose, or funding source changes, orders need only be amended, accordingly.

Generally, our association agrees with this proposal. The orders writing systems used in the National Guard (AFCOS and AROWS) already support this proposal so there should be no requirement for re-coding of systems. There will be initial confusion as this is implemented and an educational/retraining element may need to be included. There may be a requirement for Congress to re-look Title 32 of US Code for further implications with regard to Chapters 5 and 9

prior to implementation—our association supports the creation of a working group comprised of DOD and interested parties to identify and rectify any such implications.

Recommendation 5. Joint Medical Readiness Command

The Secretary of Defense and the Chairman of the Joint Chiefs of Staff should seek to enhance dedicated oversight of medical readiness through the creation of a joint medical component within a newly established joint readiness command, as well as a medical directorate in the Joint Staff. Congress and DOD should define and measure Essential Medical Capabilities (EMC) to promote and maintain critical capabilities within the military medical force. The Department should be granted additional authorities to attract EMC-related cases into military treatment facilities to best support their mission as a training platform for military medical personnel.

Association Stance on Recommendation 5:

The Commission states that it is essential that four-star leadership is needed to sustain dedicated focus and proper oversight on the joint readiness of the force. In addition, it calls for the establishment of a Joint Staff Medical Readiness Directorate (J10) at the Joint Staff directed by a three-star flag officer. This new structure will be expensive, the report does not include a business case for any savings, and does not collapse or include any current MHS offices such as DHA or Service Surgeons General. Our association believes that there is much efficiency, both organizational and fiscal, that can be garnered by collapsing the current hierarchy and instituting one unified medical office of responsibility headed by a four-star flag officer and charged with oversight and force readiness responsibilities. This new structure would meld DHA and the Service Surgeons General into one and reduce bureaucratic and expensive overhead.

Recommendation 6. TRICARE Choice

TRICARE often limits access to care by confining beneficiaries to a lengthy and frustrating process for obtaining specialty care and to weak networks of civilian health care providers. The adverse effect of weak provider networks is even more profound for beneficiaries living in remote locations, including RC members. Congress should replace the current health care program with a new system that offers beneficiaries a selection of commercial insurance plans. Costs of these plans should be offset for active-duty families with a new Basic Allowance for Health Care (BAHC) and a fund to lessen the burden of chronic and catastrophic conditions. Mobilized RC members should also receive BAHC to cover the costs of a plan from the new system or of their existing insurance plan. All members of the RC should be able to purchase a plan from the DOD program at varying cost shares. Non-Medicare-eligible retirees should continue to have full access to the military health benefit program at cost contributions that gradually increase over many years but remain lower than the average Federal civilian employee cost share as recognition of their military service. Medicare-eligible retirees should continue to have access to the current TRICARE for Life program to supplement Medicare benefits.

Association Stance on Recommendation 6:

This recommendation completely revamps TRICARE as currently constituted into something called "TRICARE Choice". It requires DOD to completely restructure the health care delivery system into something similar to the Federal Employees Health Benefits Program, but include Military Treatment Facilities in the provider network and increase benefits for dental and vision care. Active duty members will receive a new BAHC, a nontaxable allowance, to offset health care cost shares for their families. BAHC has two parts—the first part is paid directly to Office of Personnel Management by allotment for health care premiums; the second part is used for out-of-pocket costs. Retirees will not receive BAHC. Medicare-eligible retirees remain on TRICARE for Life. Non-Medicare eligible retirees will bear a cost increase of 1% per year for 15 years to bring their cost share from 5% to 20% and active duty family members would have higher out-of-pocket costs. TRICARE Reserve Select would require a cost share of 25%, down from 28%.

Our association applauds the recommendation to retain TRICARE for Life without cost share—this important benefit will keep the faith with our senior military alumni. TRICARE Reserve Select premium reduction is warranted if DOD's costs have been determined to be less than anticipated. Our association does not believe that the current TRICARE system is worthy of being scrapped in its entirety. Issues raised about barriers to access and lack of customer service in some areas can be addressed in a systematic manner without eliminating the entire system. Building more accountability and oversight, with contract modifications if contractors cannot perform to standard, should be considered in the next round of TRICARE contract specifications. Comparing the annual enrollment fee to civilian premiums (which are based on the cost of care) is an apples-to-pineapple comparison. The Department chose for years not to change the fees, and for the past few years has chosen to take aim at this demographic while under spending their accounts and transferring millions from TRICARE to readiness accounts in the 4th quarter of each fiscal year and then saying they are underfunded and health care is rising. Our association believes that the Defense Health Agency should be audited to reveal the actual cost of health care and the actual cost share required by each demographic before adopting sweeping increases in premiums.

Recommendation 7. ECHO

To provide continuous support services, benefits offered through the military's Extended Care Health Option program should be expanded to include services provided through state Medicaid waiver programs.

Association Stance on Recommendation 7:

The association takes no stance on recommendation 7

Recommendation 8. Improved collaboration between DOD and VA

DOD and VA expend tremendous national resources to ensure that servicemembers and veterans receive world-class health care. Yet there remain substantial opportunities for enterprise wide collaboration through standardization, elimination of barriers, and implementation of best practices. Differences in drug formularies for transitioning servicemembers continue to disrupt effective care. Several DOD–VA resource sharing projects have generated efficiencies for both organizations, but these efforts are mostly local, isolated arrangements. Medical information cannot yet be shared seamlessly between DOD and VA, hindering effective care for servicemembers and veterans. To resolve these issues, the current DOD–VA Joint Executive Committee should be strengthened with additional authorities and responsibilities to standardize and enforce collaboration between the organizations.

Association Stance on Recommendation 8:

The association takes no stance on recommendation 8

Recommendation 9. Merging the commissary and exchange systems

DOD commissaries and exchanges provide valued financial benefits to servicemembers and should be maintained. According to the 2013 Living Patterns Survey conducted by Defense Manpower Data Center, more than 90 percent of active-duty servicemembers use commissaries and exchanges. Although there are many differences between commissaries and exchanges, the Commission found these two activities perform similar missions, for similar patrons, with similar staff, using similar processes. Commissaries and exchanges should be consolidated to leverage these similarities. The merger of many back-end operation and support functions, alignment of incentives and policies, and consistent implementation of best practices should achieve significant efficiencies while maintaining the value of the benefits for servicemembers and their families.

Association Stance on Recommendation 9:

Our association finds that the commissary benefit is more often used than the exchanges, and that any reduction to the commissary benefit would be detrimental to our members. Commissary savings have consistently averaged 30-35% over local grocery stores. Our association sees some value in the consolidation of the exchanges into one for-profit resale activity, but not in combination with the non-profit commissary system. That being said, the Commission's recommendations are better alternative to the Department's recent budget requests which would reduce commissary subsidy by $300 million. In recent years, the Department also requested that commissaries close one day per week and that all non-remote and OCONUS commissaries close their doors for good.

Recommendation 10. Improving child care access on installations

Servicemembers' operational readiness is directly related to their ability to be at work. Access to quality, convenient, and affordable childcare is an important part of readiness. Yet the

Commission found that demand for military child care often exceeds availability, resulting in more than 11,000 children on waiting lists as of September 2014. Congress should reestablish the authority to use operating funds for minor construction projects up to $15 million for expanding or modifying child development program facilities serving children up to 12 years of age. The Department should standardize reporting and monitoring of child care wait times across all types of military child care facilities and should also streamline child care personnel policies to help ensure proper staffing levels.

Association Stance on Recommendation 10:

The association takes no stance on recommendation 10 because very few of our National Guard members utilize installation child care.

Recommendation 11. Educational Benefits

The Military Services have repeatedly emphasized the importance of using education benefits as recruiting and retention tools. Ensuring the robustness of these programs is one of the best ways to guarantee the future of the All-Volunteer Force. There are duplicative and inefficient education benefits that should be eliminated or streamlined to improve the sustainability of the overall education benefits program. The Montgomery GI Bill Active Duty Assistance Program should be sunset in favor of the Post-9/11 GI Bill. Servicemembers who reach 10 years of service and commit to another 2 years should be allowed to transfer their Post-9/11 GI Bill benefits to dependents. The housing stipend of the Post-9/11 GI Bill should be sunset for dependents, as should unemployment compensation for anyone receiving a housing stipend.

Association Stance on Recommendation 11:

The Montgomery GI Bill Selected Reserve is an important benefit to the National Guard and the association is happy that the Commissioners sustained it since there are no other education benefits that cover our constituency. Reducing housing stipends for dependents could burden those using GI Bill benefits because the average cost of typical room at a major university is quite high. The association understands that original cost estimates did not take into account University room and board because the benefit was intended for the servicemember to use at a later date, and typically the individual would not utilize expensive on campus housing because of their age.

Recommendation 12. Transition Services

Transitioning from the Military Services to civilian life is more challenging than it needs to be. Unemployment is still a challenge facing far too many veterans, especially for veterans aged 18 to 24, who had higher unemployment rates in 2013 than nonveterans of the same age group (21.4 percent and 14.3 percent, respectively). To better support transition and veteran employment, DOD should require mandatory participation in the Transition GPS education track. The Department of Labor should permit state departments of labor to work directly with

state VA offices to coordinate administration of the Jobs for Veterans State Grant program. Congress should require One-Stop Career Center employees to attend Transition GPS classes to develop personal connections between transitioning veterans and One-Stop Career Centers.

Association Stance on Recommendation 12:

Our association agrees that the Transition GPS curriculum is vital to transitioning servicemembers and that the entire Transition GPS program should be made available to National Guard members as well. As an aside, the increased emphasis towards transition programs will hopefully result in a subsequent decrease in unemployment compensation.

Recommendation 13. Nutritional Assistance

The Commission recognized that some servicemembers, particularly those with large families, will continue to need financial help to purchase nutritious food for their families. The Department of Agriculture's Supplemental Nutrition Assistance Program (SNAP), better known as food stamps, should be the means by which they receive that help in the United States. The Family Subsistence Supplemental Allowance (FSSA), the Military Services' alternative to SNAP, served only 285 servicemembers in FY 2013, in large part because SNAP is more generous and creates fewer potential social stigmas for recipient families. FSSA should be retained for servicemembers in overseas locations where SNAP assistance is unavailable, but should be sunset in the U.S. and other locations where SNAP is available.

Association Stance on Recommendation 13:

The association takes no stance on recommendation 13

Recommendation 14. Expand Space-A travel

Dependents of servicemembers who are deployed for more than 120 days can fly, unaccompanied, on military aircraft when there is space available. However, shorter deployments are becoming routine for some. The quality of life of servicemembers' dependents should be improved by providing access to unaccompanied travel on military aircraft for deployments of 30 days or more.

Association Stance on Recommendation 14:

Our association passed a resolution at its last annual conference concerning Space-A travel. The space-available travel law was included in the National Defense Authorization Act of 2013 and should now be providing equal benefits to active and reserve-component members, eligible surviving spouses and others the Secretary of Defense may deem as eligible. The Secretary of Defense should have, by now, established a priority order of travel for eligible members. The Department has not implemented the law, nor updated the regulations needed. Currently, some National Guardsmen, Reservists, "gray area" retirees and their dependents,

and eligible surviving spouses and their dependents are being denied these travel privileges. Asking the Secretary of Defense to quickly implement the law will help ensure that those benefits are available to those who are deserving of them.

Recommendation 15. Identification of Military Dependent Students

Children of active-duty servicemembers are not being identified separately in nationwide reporting of student performance. These children experience unique stresses associated with parental deployments and frequent relocations that can adversely affect academic performance. A military dependent student identifier should be implemented through Elementary and Secondary Education Act reporting to identify students who are children of active-duty servicemembers. This identifier would enable consistent reporting on the academic performance of military dependents, as well as identification of the support required to meet their needs.

Association Stance on Recommendation 15:

The association takes no stance on recommendation 15 and defers to the other Military Coalition partners for their expertise in this area. The possible inclusion of reserve component and National Guard military dependent students should be considered.

APPENDIX I—STATEMENT OF THE NATIONAL ASSOCIATION FOR UNIFORMED SERVICES

NATIONAL ASSOCIATION FOR UNIFORMED SERVICES

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"The Service Member's Voice in Government" • Established 1968

February 27, 2014

Chairman John McCain
United States Senate
Committee on Armed Services
Washington, DC 20510-6050

Ranking Member Jack Reed
United States Senate
Committee on Armed Services
Washington, DC 20510-6050

Chairman Lindsey Graham
United States Senate
Committee on Armed Services
Subcommittee on Personnel
Washington, DC 20510-6050

Ranking Member Kirsten Gillibrand
United States Senate
Committee on Armed Services
Subcommittee on Personnel
Washington, DC 20510-6050

Dear Chairmen and Ranking Members:

Thank you for your February 4 letter requesting the view of the National Association for Uniformed Services (NAUS) regarding the 15 recommendations presented by the Military Compensation and Retirement Modernization Commission.

Enclosed is our preliminary submission for your consideration. A full analysis of the recommendations has yet to be completed.

Again, thank you for your kind request for comments. It is appreciated.

Sincerely,

JACK W. KLIMP
Lieutenant General, US Marine Corps, Retired
President and Chief Executive Office
National Association for Uniformed Services

enclosure

National Association for Uniformed Services
Preliminary Views on MCRMC Recommendations

Pay and Retirement

1. Help more Service members save for retirement earlier in their careers, leverage the retention power of traditional Uniformed Services retirement, and give the Services greater flexibility to retain quality people in demanding career fields by implementing a modernized retirement system.

We applaud the decision to grandfather current retirees and servicemembers under the present retirement program. Affording a government contribution and match for uniformed service personnel involved in the Thrift Savings Plan is long overdue. Federal civilian employees have enjoyed a government match for many years. Adding more to the current TSP in the form of a government contribution should not terminate at the 20 year mark. Allowing services to target specific careers for retention is always a good idea. Reducing per year percentage for a 20-year career to 2.0 from 2.5 is a bad idea and would likely reduce retention.

2. Provide more options for Service members to protect their pay for their survivors by offering new Survivor Benefit Plan coverage without Dependency and Indemnity Compensation offset.

The current SBP/DIC offset should be fixed now without regard to future members and their survivors. There should be NO offset. Each pay is awarded for different reasons and not all retirees or their dependents are eligible for both. The higher premium, thereby the lower disposable retirement pay, would fall on the most vulnerable injured, ill and disabled service members, whose condition results directly from their uniformed service to our nation. It would seem as though there's a better way than placing the burden on sick and disabled retirees.

3. Promote Service members' financial literacy by implementing a more robust financial and health benefit training program.

More education for service members in how to handle and better manage their money and health benefits is always a good idea.

4. Increase efficiency within the Reserve Component by consolidating 30 Reserve Component duty statuses into 6 broader statuses.

If this proposal can be handled to ensure there is no loss of readiness and future readiness would not be impacted it could be a good idea.

Health Benefits

5. Ensure Service members receive the best possible combat casualty care by creating a joint readiness command, new standards for essential medical capabilities, and innovative tools to attract readiness-related medical cases to military hospitals.

Many efficiencies in training, supply and acquisition could be had. As long as those specialty medical personnel such as Independent Duty Corpsmen on submarines, combat medics and corpsmen that deploy with combat troops and others can maintain their proficiencies.

6. Increase access, choice, and value of health care for active-duty family members, Reserve Component members, and retirees by allowing beneficiaries to choose from a selection of commercial insurance plans offered through a Department of Defense health benefit program.

We find it questionable that paying a Basic Health Care Allowance to all active duty personnel could benefit them and their families. We question the suggestion that it would be an allowance. Right now Congress is reducing the current Basic Allowance for Housing. Unless it was put into the law that the allowance could not be decreased, we fear future Congresses would see this as an easy way to save money. In addition, we are not convinced that the way forward is to abolish under-age 65 TRICARE. We applaud the decision to retain current TRICARE for Life without change.

7. Improve support for Service members' dependents with special needs by aligning services offered under the Extended Care Health Option to those of State Medicaid waiver programs.

We view helping dependents with special needs as a worthwhile objective. However, TRICARE beneficiaries should not carry the burden of additional costs attendant to insurance coverage for special needs programs. These costs should be shouldered by all Americans and made part of any new premium program.

8. Improve collaboration between the Departments of Defense and Veterans Affairs by enforcing coordination on electronic medical records, a uniform formulary for transitioning Service members, common services, and reimbursements.

It is way past time to order the DoD to adapt to and adopt the VA Health Records system. Several countries use and have been studying the VA system for years. DoD would be required to build a mobile component so they can track and update records while on the battlefield. A uniform formulary for both the VA and DoD would force additional costs to VA patients. Because medicine prescribed by DoD for Wounded Warriors is many times not available under the VA formulary, the transition to VA needs to be more closely and more frequently monitored. Physicians, nurses and clinicians need to assure there is no sudden, unanticipated change in the effectiveness of medications. There is opportunity to realize savings by combining the VA and Military Medical System in regards to supplies, equipment and transportation.

Quality of Life

9. Protect both access to and savings at Department of Defense commissaries and exchanges by consolidating these activities into a single defense resale organization.

Combining commissaries and Exchanges should only be entertained when BRAC pressures shut down large bases with those facilities. For example in Orlando, FL there is a combined Navy Exchange/Commissary. It is very busy and has many consumers. Active duty, retired and Reserves from as far away as Tampa Bay and Cape Canaveral use the system. Most exchanges support base MWR programs to the extent they keep many things open, such as libraries, which otherwise would close due to budget cutting by respective services.

10. Improve access to childcare on military installations by ensuring the Department of Defense has the information and budgeting tools to provide childcare within 90 days of need.

Daycare has long been a source of frustration not only for single military families but also those lower ranking members whose budgets are already tight. Most if not all base childcare facilities are booked solid and have waiting lists. Affordability and convenience are the major reasons.

11. Safeguard education benefits for Service members by reducing redundancy and ensuring the fiscal sustainability of education programs.

Many military members fully appreciate the availability of educational opportunities such as tuition assistance and the Post 911/GI Bill. NAUS embraces changes to extend the time commitment required to obtain the transferability benefit and the proposal to alter housing stipend payments to dependents effective after 2017.

12. Better prepare Service members for transition to civilian life by expanding education and granting states more flexibility to administer the Jobs for

Veterans State Grants Program.

Anything that can be done to give great job opportunities to those who have fought to defend our country are very appreciated

13. Ensure Service members receive financial assistance to cover nutritional needs by providing them cost-effective supplemental benefits.

While it is reprehensible that any active duty military member, no matter the size of their family, would qualify for nutritional assistance. If making these members eligible for Food Stamps would ensure there are no hungry military families we fully support this.

14. Expand Space-Available travel to more dependents of Service members by allowing travel by dependents of Service members deployed for 30 days or more.

Instead of changing the Space-A system, the Services should be encouraged to grant more permissive TAD to allow sponsors to accompany their families. Similar advantageous accommodation should be afforded surviving spouses.

15. Measure how the challenges of military life affect children's school work by implementing a national military dependent student identifier.

It is not clear what the establishment of this list would accomplish. If it in any way aides military children in reaching their educational goals and offers them expanded opportunities to receive additional scholastic assistance we would support the measure.

APPENDIX J—STATEMENT OF THE NATIONAL DEFENSE INDUSTRIAL ASSOCIATION

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April 1, 2015

The Honorable John McCain
Chairman
Committee on Armed Services
United States Senate
228 Senate Russell Building
Washington, DC 20510

The Honorable Jack Reed
Ranking Member
Committee on Armed Services
United States Senate
228 Senate Russell Building
Washington, DC 20510

The Honorable Lindsey Graham
Chairman, Subcommittee on Personnel
Committee on Armed Services
United States Senate
228 Senate Russell Building
Washington, DC 20510

The Honorable Kirsten Gillibrand
Ranking Member, Subcommittee on Personnel
Committee on Armed Services
United States Senate
228 Senate Russell Building
Washington, DC 20510

Dear Chairmen and Ranking Members:

Thank you for the opportunity to comment on the Military Compensation and Retirement Modernization Commission's recommendations to Congress. Aside from sequestration, the issues addressed by the Commission are the most significant matters facing the Department of Defense (DoD) and the long-term sustainability of the All Volunteer Force.

Over the last several years, the issue of reforming the benefits received by our men and women in uniform has been hotly contested, especially among veterans and retirees. Without a doubt, every individual willing to sacrifice for our country must have access to quality health care and housing, and their families must receive fair compensation—especially when a loved one is lost. We need a contemporary and up-to-date compensation system, one that is sustainably affordable for a force sized to our national security strategy and operational requirements, flexibly able to shape the force for times of war and peace and to meet rapidly evolving missions, and reflects the spirit of service that is the premise of U.S. military professionalism.

Regrettably, our current compensation system achieves none of these goals. Many of the current benefits that have accrued to the force over time have done so without a comprehensive conversation about how new benefits fit into the existing system, whether the budget can sustain the increased costs of certain benefits in perpetuity, and why new forms of compensation were necessary to meet our national security requirements.

To the extent that our compensation and retirement system reflects a strategy, it is a strategy designed for a bygone era. The major elements of the personnel management systems,

compensation and benefits, and healthcare and retirement are legacies from World War II and the early years of the Cold War. Due to increased life expectancy and prolonged careers, the fully burdened and lifecycle costs for all of these programs are unsustainable over the long-term. For example, private industry only rarely uses the defined-benefit pension that characterizes today's system of military retirement and most every business that had them in prior eras have long since shifted to modern approaches.

Private industry also recognizes the reality of a mobile workforce. The current military recruitment, training, and retention system remains intransigent in the face of new workforce realities, enabled by an impressively generous package of benefits required to insulate the 20-year military career from private workforce trends that increasingly reflect shorter stints at different employers over a single career. The challenge to the current military workforce system posed by the rising Millennial Generation means that the question of compensation and military workforce reform is not so much "Will we reform?" but "When and how will we reform?" For those military professions that cannot be hired but must be grown from within over time, the compensation system must be attractive enough to retain essential skills and talented personnel but flexible enough to remain affordable across the aggregate military workforce.

Contrary to the arguments of some, the current system is totally unaffordable. On this subject and probably no other, every Washington think tank, representing the political left, right, and center, are aligned. While some groups argue that the increased stress of service makes it all the more important to increase benefits to improve retention, it is the increase in benefits that has shrunk the total force and increased stress and strain on individual service members and their families. Fewer troops in uniform mean more frequent deployments and hardship tours for those who remain. While the Commission's recommendations were not budget-driven, when Congress considers any or all of the recommendations in the report, the cost of the proposals should be considered.

Personnel costs have typically averaged about one-third of the defense budget since the 1980s. However, that third of the defense budget pays for a force that is 40 percent smaller than it was little more than 30 years ago.[1] The fully burdened cost of an average active duty service member has grown to approximately $400,000 per year. Within the next couple of years, the life-cycle costs of compensation for retirement and health care for military retirees and their dependents will be greater than the entire $140 billion annual appropriation for the military personnel account that includes all active duty, Guard, and reserve personnel. We have 2.4 million retirees (only 1.2 million active duty) and their retired pay alone is $100 billion a year. Our country cannot sustain that trajectory.

We call military service, "service," because that is what it is. Our men and women in uniform choose to serve our country and us, its citizens. They swear an oath of office "that I take this obligation freely without any mental reservation or purpose of evasion." Portraying recruitment and retention purely as matters of pay and benefits misses something core to the concept of service. In the same way that we cannot hire an infantry battalion commander or a

[1] Janine Davidson, *Charts, Charts, Charts: Everything You Need to Understand the Military Compensation Debate*, http://blogs.cfr.org/davidson/2015/01/28/charts-charts-charts-everything-you-need-to-understand-the-military-compensation-debate/

warship's captain from the workforce at large, the individuals who seek these roles are recruited and retained differently than the workforce at large. Like all of us, they want compensation that will meet their and their family's material needs. But they also want to do the job they joined to do in the best manned, trained, and equipped force in the world. Any sustainable compensation system must balance their quality of life with their quality of service—and today's system utterly fails in that regard, and never more seriously than since sequestration took effect.

Overall, the Commission clearly understands these issues, and I believe they did a solid job of incorporating them into their findings. What follows is my response to each recommendation as you specified in your request letter.

Modifying the Military Retirement Plan

This proposal is spot on and long over-due. We have an entire generation right now that served multiple tours in harm's way, faced hardships and sacrifices that less one percent of the entire population can understand or fathom, and for all of that dedication and commitment, most will receive nothing after separation from service. In fact, I have two individuals on my staff who enlisted after 9/11, one of whom served multiple combat tours. Neither of them retired from the military, and in return for their service to our country, they accrued no retirement benefits. Their situation reflects a fundamentally unfair and unbalanced compensation system.

Modifying Survivor Benefit Plan (SBP) Options

This particular issue has long been an inequity with our service members and their families. I agree with the Commission's proposal of providing an alternative for individuals to choose from when it comes to survivor benefits and removing the offset from Indemnity Compensation which has been a surprise to many families after the passing of a loved one.

Providing options and not necessarily removing the current SBP structure as a low-cost option is very much in line with private sector best practices and will become another tool for the retention of mid-career personnel.

Improving Financial Literacy

I am encouraged by the Commission's proposal to assist young servicemembers in fully understanding their pay and benefits but also how to manage, in many cases, their new "financial freedom." For many entering the military, they are receiving a constant source of income for the first time. And for some, it can be extremely difficult to manage and maintain financial discipline. We are all familiar with stories of young military personnel who bought a car they could not afford, or opened credit cards they could not pay off.

Those unfortunate decisions can take years to recover from, so I believe that this proposal will aid service members not only while they are in the military, but also when they transition to civilian life, whenever that may be. Additionally, if there is an introduction of a new retirement or health care system that provides flexibility and choices, the service members must be educated to make those decisions, which can have an enormous impact on their finances.

Reserve Status Consolidation

My last assignment in the Air Force was as Chief of the National Guard Bureau. In this capacity, as well as through my entire career, I had the privilege of leading highly trained and dedicated men and women who are the some of the most capable airmen in our armed forces.

The Commission is absolutely right with this recommendation. It's also consistent with recommendations from the Commission on the National Guard and Reserve, the last Quadrennial Review of Military Compensation, and National Commission on the Structure of the Air Force. It was one of the most difficult tasks to manage while I was Chief, and with the operational tempo still very high for certain elements of the reserve components, it remains a significant challenge for all of the services and their commands. While progress has been made deploying, redeploying, and mobilizing the reserve components since 2001, the complexity of the specific statuses is extremely challenging to manage for every one of the service branches and reducing from over 30 to a much smaller number is long overdue.

Establishment of a Joint Readiness Command

While in principle I fully agree with and understand the intent of this proposal, I think that Congress and the Department should fully analyze and understand the best way to preserve and maintain essential medical capabilities. It is not a simple or inexpensive task to create a new joint command, and there have plenty of instances in recent history where attempts to foster jointness among the services—whether through training or fulfilling theater requirements—have led to more and more bureaucracy, costs, and less oversight.

Again, I fully agree with the Commission's underlying intent regarding this proposal. However, I think it is very important, especially given the current budgetary environment, that this particular issue receives careful consideration and debate before enactment. It would be better to achieve these goals without creating a new agency.

Modifying the Health Care Plan

The current structure of the military health care system is burdensome and restrictive for service members and their families. Over the past decade alone, the health care portion of the budget has grown over 130 percent.[2] And while there is little to no cost to active duty personnel and their dependents, the current system is very inflexible to the varying needs of families, especially for those stationed in more remote areas.

Health care is a politically-charged subject in the United States. Consensus is difficult to achieve. Congress must ensure that whatever changes are made to the current system, they will have the least impact on the day-to-day lives of our military men and women and their families.

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[2] Janine Davidson, *Charts, Charts, Charts: Everything You Need to Understand the Military Compensation Debate*, http://blogs.cfr.org/davidson/2015/01/28/charts-charts-charts-everything-you-need-to-understand-the-military-compensation-debate/

The current generation serving in uniform prefers flexibility in their compensation, and their health care is no different. Providing quality, flexible health care coverage is something the private sector continually evaluates and analyzes for its employees and can be a significant factor in retaining and recruiting employees. Competitive employers offer options to choose from. Federal Employees Health Benefits Program is a good example.

The flipside of today's less-flexible system is the generosity of its benefits for retirees and their dependents, and the pressure that generous benefit places on the defense budget. "In 2002, 43 percent of working-age retirees chose to use private health insurance. By 2013, that number had dropped to just 17 percent."[3] Private insurers find ways to share reasonable cost burdens with patients to dissuade them from unnecessary procedures. Until reasonable burden sharing becomes a component of retiree and dependent health care coverage, we will continue to see unaffordable cost growth.

Modification of the Extended Care Health Option Benefit

Of any of the proposals presented by the Commission, this particular issue is one of the most important because it addresses the most vulnerable members of our military families: children with special needs. We absolutely must ensure that those in particular with unique and special circumstance receive the highest quality of care and support.

No mother or father should ever have to leave their loved ones behind to deploy to a combat zone while wondering whether their child's special needs will be met. Access to medical treatments necessary for the care of their children should never be in question, and military service should never hinder access to quality care. TRICARE should adopt the same approach to special needs coverage as Medicaid has with its waiver program.

Modifying Department of Defense and Department of Veterans Affairs (VA) Collaboration

I support this proposal and feel continued dismay at how disjointed the two departments' processes are. One of the most important aspects of the transition for a servicemember from the care they receive by DoD to that of the VA is maintaining their medical records.

Improving the seamless sharing of medical information from one department to another should be a top priority for both departments. The technology exists in the commercial marketplace to accomplish this task and every effort should be made by Congress and the departments to use existing resources to leverage this technology to improve the quality and timeliness of care for servicemembers and our veterans.

[3] Janine Davidson, *Charts, Charts, Charts: Everything You Need to Understand the Military Compensation Debate*, http://blogs.cfr.org/davidson/2015/01/28/charts-charts-charts-everything-you-need-to-understand-the-military-compensation-debate/

Combining the Commissaries and Exchange Systems

This proposal makes good business sense, and I support it. I also think Congress should look more closely at the operations of these two entities to determine to what extent they have an impact on the quality of life for military men and women and their families.

Many retirees and some families utilize the services and products offered by commissaries and exchanges, but the majority of military families stationed at major military installations have access to commercial stores like Target, Walmart, Best Buy, and Costco—where prices on food and other products are sometimes cheaper.[4] That small list of "brick and mortar" stores does not include online options like Amazon.

I encourage the Congress to look at the proposal of put forward by the Commission, and to consider reducing commissaries and exchanges to only those locations where access to commercial stores and the online marketplace is limited. Commissaries and exchanges should exist for remote posts that do not have commercial providers of reasonable quantity, variety, cost, or quality. Taxpayer subsidies should be reduced.

Modifying the Childcare Benefit

Overall I agree with this proposal, especially given the number of children currently in waiting lists for childcare services. However, I would add one stipulation: projects to build and expand on childcare facilities should be prioritized based upon the availability of childcare services in the immediate area off post.

The more remote a location, the less likely there will be alternative options available off-base for service members to send the children for school or daycare. However, in more densely populated areas, such as in Washington, DC, numerous options are available.

Modifying the Education Benefit

The Post-9/11 GI Bill is one of the most comprehensive and generous educational benefits provided by the federal government and available for active-duty members and veterans who served for a period of time following 9/11. This is a tremendous benefit and an outstanding tool for recruitment and retention.

The Commission's proposal to streamline this and other educational benefits is spot on. This benefit served its initial purpose after the attacks on 9/11 and operations in Afghanistan and Iraq; however, the adjustments included in the report are measured and appropriate for today's recruitment and retention environment.

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[4] Jeff McDonald, *Military Shoppers Don't Always Save*, http://www.utsandiego.com/news/2014/aug/15/military-shoppers-dont-always-save/

Making Transition Assistance Programs Mandatory

One of the most significant challenges facing servicemembers when leaving the military is finding employment. This challenge occurs most often with younger, junior enlisted personnel who leave at the end of their first or second enlistment and are in particular career fields that do not translate directly into the private sector, such as infantry, field artillery, or tank crewman. If the individual does not take advantage of available educational benefits, it becomes difficult to find gainful employment straight of the military.

While I support the underlying principle of this proposal and agree that this type of program should be mandatory, I think it is very important that this program has strong oversight and accountability. If we create a new program of this type, we must monitor and improve its performance over time, including by tracking job placement, job type, industry, and level of pay.

Discontinuing the Family Subsistence Supplemental Allowance Benefit

I concur with this proposal and have no additional comments.

Changes to Eligibility for Space Available Travel

The continued stress of being separated from loved ones can be very difficult for service members and their families to endure time and time again. The "Space A" proposal is a very sensible way to improve quality of life for our men and women in uniform, especially with the past decade of high operational tempo and constant deployments around the globe.

Establishment of a Military Student Identifier

I concur with this proposal and have no additional comments.

Thank you for the opportunity to respond to the Commission's report. If I can be of any further assistance please do not hesitate to contact me at cmckinley@ndia.org or (703) 247-2550, or my staff member Jimmy Thomas, Director of Legislative Policy, at jthomas@ndia.org or (703) 247-2598.

Sincerely,

Craig R. McKinley
General, USAF (Ret.)
President & CEO

APPENDIX K—STATEMENT BY THE RESERVE OFFICERS ASSOCIATION

ROA
RESERVE OFFICERS ASSOCIATION

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31 March 2015

The Honorable John McCain
Chairman
Senate Armed Services Committee

The Honorable Jack Reed
Ranking Member
Senate Armed Services Committee

The Honorable Lindsey Graham
Chair, Personnel Subcommittee

The Honorable Kirsten Gillibrand
Ranking Member, Personnel Subcommittee

Subject: Reserve Officers Association of the United States comments on the recommendations of the Military Compensation and Retirement Modernization Commission.

Dear Chairs and Ranking Members:

The Reserve Officers Association of the United States represents all seven of our nation's uniformed services, both non-commissioned and commissioned officers in the Reserve Components. Under our 1950 Congressional charter, our purpose is to promote the development and execution of policies that will provide adequate national defense. We do so by developing and offering expertise on the use and resourcing of America's Reserve Components.

The recommendations of the Military Compensation and Retirement Modernization Commission (MCRMC) offer much of value to ensure the viability of the All-Volunteer Force. The recommendations also enable the quality of life for members of the armed forces that will foster successful recruiting, retention, and careers.

The recommendations also both modernize and achieve fiscal sustainability. The latter is especially important as personnel costs represent such a large and growing portion of the Department of Defense (DoD) budget. Without sustainability in the personnel area, readiness and modernization will suffer.

We applaud their inclusion of Reserve Component members and their families in public hearings and town hall meetings, military installation visits and sensing sessions, and service member surveys.

ROA analysis of the recommendations indicates both potential negative and positive effects on Reserve Component service members. We respectfully submit our input and note that should additional information prompt our re-evaluation of the recommendations, we would immediately share our thoughts with you.

1. Modifying the Military Retirement Plan

ROA supports adoption of an incentive to enable lower-ranking service members to be able to participate in the TSP proposal at a level above the 1 percent government contribution. At the

lower pay these people earn, most, if not all, of their salary pays for the necessities of life, making it hard for them to carve out income for savings. With this recommendation, lower-paid service members who live paycheck-to-paycheck lose because they would not be able to contribute to their retirement. Those that do contribute lose money from their net pay; in other words, our lower-paid service members face a "lose-lose" situation.

ROA urges Congress to establish a tax incentive that allows lower-paid enlisted members to contribute to TSP without a loss in net-pay.

How people will react to the modified program is speculation unless and until it is implemented. Experience shows that behavior can be very different than anticipated when a program is proposed. Also, execution of a program often drives unexpected results that require additional legislation to address. For example, the services may encounter a low retention rate for high-demand specialties, like cyber security, that are crucial to combat terrorism suggesting the importance of retention incentives early in their careers.

ROA urges Congress to pass legislation that provides flexibility for the "retention with defined contributions" option, other than just at the 12 year point recommended by the commission, to preserve flexibility for unanticipated circumstances, such as retention rates declining at earlier periods of service, i.e. 8 years.

ROA urges Congress to provide an enhanced multiplier (i.e., greater than 0.02) for those who serve between 21 and 30 years as well as providing a government match to the 401(k) after 20 years.

The commission uses two different discount rates from the RAND Corporation, *Analysis of Retirement Reform in Support of the Military Compensation and Retirement Modernization Commission Progress Report*, November 2014. ROA is concerned that the commission relied on a single report for discount rates, noting the cautions in a recent GAO report, *PENSION PLAN VALUATION, Views on Using Multiple Measures to Offer a More Complete Financial Picture*: "Experts in the United States have disagreed on both the approach that should be taken by plans to determine a discount rate and the appropriate rate to be used. Different discount rates can create large differences in the valuation of a plan's obligations, which in turn can lead various stakeholders to draw different conclusions about a plan's health, the value of a plan's benefits, and the contributions required to fund them." The commission's use of the RAND analysis undervalues the current pension.

ROA urges Congress to use a single discount rate, lower the discount rate because the government is the pension guarantor, and apply a conservative approach to the stock market growth effect to pensions.

2. Modifying Survivor Benefit Plan (SBP) Options

ROA has no input for this proposal at this time.

3. Improving Financial Literacy

The commission recommendations for improving financial literacy are crucial to maintaining a healthy force. A 2012 study entitled, *Examining the Relationship Between Financial Issues and Divorce*, drew a correlation between financial disagreements and divorce. Removing financial stressors will help military members as they serve the nation, and allow them to develop and maintain healthy family relationships

ROA urges Congress to include family members in financial training.

ROA urges Congress to add security clearance investigations as another opportunity when members can receive financial training, because credit reports are reviewed as part of this process and credit problems can be identified.

ROA, in light of uneven performance of some contractor-provided training, urges Congress to direct the services to evaluate the professional training firms contracted for services to ensure they are providing effective financial literacy training.

4. Reserve Status Consolidation

Several previous commissions have recommended consolidation of statuses, a move generally supported by the services and their members as a way to streamline the often maddeningly complex process of bringing the right people onto duty for the right span of time. The process to simplify, however, does have its own complexities: the Inactive Reserve Service category mixes several pay rates. For example, Funeral Honors Duty pays members at the $1/30^{th}$ rate while Muster Duty uses a modified base pay calculation. If this new status would combine several inactive statuses, the pay should be standardized. As a matter of principle, ROA applauds and supports the streamlining of duty statuses, and finds the outcomes presented by the commission to be as good a grouping as one could expect.

ROA urges Congress to either pay the entire Inactive Reserve Service orders at the current pay rate or pay all of the orders at the $1/30^{th}$ pay level with incentives and supplemental pay equal to active duty.

ROA urges Congress to fully consider the additional impacts that will occur with this change. For example, the reduced retirement pay age qualifying service categories may be affected (Title 10 Sections 688, 12301(a), 12301(d), 12302, 12304, 12305, 12406 and Title 32 Sec 502f).

5. Establishment of a Joint Readiness Command (JRC)

The commission recommends establishing a joint readiness command to ensure that combat-related medicine and associated training, equipping, manning, modernization, policy and so forth are sustained during periods between war, for ready use in war. A JRC is referred to by members of the MCRMC as the essential recommendation among the commission's fifteen; its enactment facilitates the operational success of the others. The JRC and its four-star commander

are presented as an essential part of modernizing military medicine, medicine for family members, and ensuring an untarnished "Golden Hour." Moreover, discoveries made within military medicine help society generally. The assumption is that combat medicine is the *sine qua non* of defense healthcare, that the service medical commands and surgeons general, and the Defense Health Agency are not doing or cannot do an adequate job with regard to integrated combat-related readiness. Further, there seems to be an assumption that the Joint Staff, a potent and capable presence in DoD, needs the help.

Premises underlying establishment of a JRC make sense: our military treatment facilities are seeing fewer patients. Military doctors are more likely now to deliver a baby than mend a traumatic amputation; in sum, we are outsourcing some of our critical skills to the commercial sector through TRICARE. *ROA agrees: this potential "rusting" of the skill set is a valid concern, both in the military and at VA.* To ensure our uniformed clinicians are competent in the necessary skills, the JRC would precipitate and manage an increased flow of select cases back to the MTF.

ROA was finally convinced to support yet another layer of federal bureaucracy – in this case a four-star command – when retired Gen. Peter Chiarelli put the argument to us in terms convincing to anyone associated with Pentagon power dynamics. His intent, which animates this recommendation of a JRC, is that readiness gets the clout only a four-star flag officer can deliver. Only a four-star flag officer has the certain clout to convince the DoD comptroller to ensure that medical readiness not be underfunded.

The establishment of any new federal bureaucratic layer should be undertaken with the greatest circumspection. The existence of a DHA, itself developing its scope and activity, gives ROA cause for concern: how will the establishment of a JRC be done without creating yet more interagency conflict, redundancy, inefficiency, and unneeded expense? Will the proposed command prompt a realignment within DoD of resources, mission and/or power? The commission assured us that as part of its recommendation, DHA would divest itself of all but the support mission, producing a leaner, more focused bureaucracy.

The history of federal agency-making suggests such realignments and reallocations will be challenging. But if these tough steps are not taken, much of the transformative potential inherent in a JRC will be compromised, and with it, combat medical readiness.

In other words, the lives of trusting young Americans.

> ***ROA urges establishment of a joint readiness command directed by a uniformed four-star commander, with a commensurate divestiture by DHA of all but the support mission, as determined in coordination with the new JRC.***
>
> ***ROA urges that, given the reliance of the armed forces on the Reserve Component for medical capabilities, the recognition within the military of the RC's performance, and the importance of component integration, the JRC proportionately allocate billets and training to members of the RC in appropriate specialties; further ROA urges that RC***

officers and senior noncommissioned officers are assigned to key leadership positions, including the command's three-star deputy commander role.

6. Modifying the Healthcare Plan

The commission did not address or analyze the affects of this recommendation to TRICARE Reserve Select and initial analysis show premiums for this category would increase significantly between the premium, co-pays and cost sharing. The current TRS monthly premiums (January 1 - December 31, 2015) are:

- Member Only: $50.75 per month
- Member and Family: $205.62 per month

Guard and Reserve members would absorb the entire cost of these increases as they would not receive Basic Allowance for Health Care (BAHC).

	Active Component: Paid by BAHC	Reserve Component (RC): Paid by Member
Total Current Year Premium of Median Plan Selected in Prior Year	$8,507	$8,507
% of Premium	$2,382	$2,127
Average Copayment Amount	$920	$920
Total	$3,302	$3,047

ROA urges Congress to extend BAHC to TRICARE Reserve Select eligible service members.

7. Modification of the Extended Care Health Option (ECHO) Benefit

ROA has no input for this proposal at this time.

8. Modifying Department of Defense and Department of Veteran's Affairs Collaboration

More than a decade after Congress formed the VA-DoD Joint Executive Council (JEC), effective collaboration of the two agencies is still deeply, persistently, and distressingly flawed. The current Department of Veterans Affairs and Department of Defense Joint Executive Committee Joint Strategic Plan is signed by VA's deputy secretary and DoD's acting under secretary of defense for personnel and readiness. The mismatch symbolizes an imbalance that impedes collaboration. VA is at a disadvantage; one justification offered for the inequity is that VA's deputy secretary is "number-two" in a more narrowly focused health care and benefits agency, while the deputy secretary of defense has a wider scope and is therefore on a different plane. Yet, position – and the attendant visuals – matters. The JEC was formed in part to convey *the message* of collaboration as well as enact the substance. Instead, this inequity reveals the actual relationship between the two agencies and their leadership. Perhaps a more fundamental weakness is that the JEC is merely an advisory body; *ROA endorses the commission's*

recommendation to give the JEC authorities to standardize and enforce collaboration between DoD and VA, placing it at the table for budget and policy development. When all is said and done, focused and consistent pressure will be required from the White House, executive branch leaders, and the congressional committees of jurisdiction to change the cultural influences impeding progress.

ROA urges Congress to cause a more equitable pairing of principals on the JEC.

ROA urges the President to appoint a senior representative to ensure fulfillment of his expressed desire for collaboration on key initiatives between the two departments, perhaps the Vice President.

ROA also urges Congress to develop an independent, impartial means for binding decisions when DoD and VA can't agree on a course of action.

9. Combining the Commissary and Exchange Systems

ROA opposes the proposed merger of the Exchange system with the Defense Commissary Agency (DeCA) into a new Defense Resale Activity (DeRA) until DeCA makes its operations significantly more efficient, realizing savings in the hundreds of millions of dollars and generating increased revenues from improved practices used routinely in American grocery retail.

ROA opposes merger until these improvements are made precisely because the two entities are valued by military families: merger of a dynamic, high-performance non-appropriated fund Exchange with a change-resistant, bureaucratic, tax-supported grocery chain is more likely to destroy the competitiveness (viability) of the former than enhance the performance of the latter. Both must be made as competitive as possible within their revenue models before merger is advisable (private-sector mergers, managed by skilled executive teams, fail as often as they succeed, and these mergers involve companies using the *same* revenue model).

Once efficiencies in the Commissary are made, "back-office" collaboration would yield further efficiencies. Merger might then be suitable.

Exchange officials led by a retail veteran CEO increased earnings in a shrinking market (military downsizing) from $272 million in 2011 to $373 million in 2014; they carry some credibility. Their success raised dividends going from the Exchange to military Morale, Welfare and Recreation activities. They show that *the Commissary can save, without the extraordinary risk and expense of merger, a tremendous amount of money through a mix of highly feasible efficiencies*: variable pricing, private labeling, Military Star card acceptance, interpreting rule sets less narrowly, eliminating unnecessary investment in new facilities and technologies, cutting overhead and standardizing compensation (appropriated activities typically offer more aggressive pay than non-appropriated entities).

The establishment of any new federal bureaucratic layer should be undertaken with great

caution and regard for unintended second- and third-order effects. Merger, risky in the best of circumstances, will almost certainly stifle competitiveness: will senior leaders in the Defense Resale Agency – who are pitted in the market against directly with skilled retail giants – have decisive experience in the retail jungle?

In the unequivocal success of the Exchange we see the effect of the right person at the top. A pivotal concern is that the wrong skill set will be at the very top of a DeRA: a Defense official with little or no retail expertise. The argument that a DeRA chieftain must understand the "ways of the building" is better suited for the occupant of the number-two job. An inadequate DeRA leader will produce merely a larger version of the Commissary, competitive only because of its discounts, courtesy of the taxpayer's generosity. Ultimately, the taxpayer may decide such a benefit is not sustainable, and who then will lose out? By contrast, the Exchange system, under the direction of a savvy private-sector veteran of retail P&L leadership, has achieved massive efficiencies and improvements.

The Exchange must not be dragged back by linkage with a lower-performing bureaucratic operation; that would in turn decrease dividends going from the Exchange to military Morale, Welfare and Recreation activities. Instead the Commissary must undergo tough reform, perhaps led by the Exchange leadership working with new DeCA leadership drawn from grocery successes, such as Giant, H-E-B, Wegmans, Whole Foods, etc. At that point and only then, some "back office" consolidation between it and the Exchange would perhaps make sense.

ROA urges Congress to direct the Commissary to achieve efficiencies by reducing capital expenditures and updating the rules they use to conduct business so they are more in line with how other successful grocery corporations for improving service.

As the Exchange requested of DoD in August 2014, ROA urges DoD to authorize honorably discharged veterans to shop the Exchanges online (approximately 18 million potential customers), potentially quadrupling the market and significantly increasing funds for Morale, Welfare and Support activities benefitted by Exchange revenues.

10. Modifying the Childcare Benefit

If one of the premises of the report is to not negatively affect recruiting and retention then this recommendation needs to be broadened to include the Reserve Components. Right now an existing barrier to continued service is the lack of day care during weekend training assemblies. Guard and Reserve members cannot go to the civilian sector to get this service because day cares are typically closed on the weekend.

ROA urges Congress to fund military facility day care centers for weekend training assemblies.

11. Modifying the Education Benefit

The commission recommendation sunsets MGIB-REAP in favor of the Post 9-11 education bill which ends the education benefit much sooner under the Post 9-11 option. MGIB-REAP allows service members to use the benefit 10 years from the day they leave the Selected Reserve or the day they leave the Individual Ready Reserve. For the Post 9-11 benefit, they have 15 years from the last day of their active duty order. For example, a reservist is on active duty orders for 90 days until March 25, 2015. This means the reservist can use Post 9-11 education benefits until March 25, 2030. Under the same orders the reservist earns MGIB-REAP and retires from the Selected Reserve on April 1, 2025. The reservist's MGIB-REAP benefit can be used 10 years after retirement, until April 1, 2035. Reserve Component members have clearly earned both benefits and should be able to use whichever benefit best serves their education goals.

ROA urges Congress to continue MGIB-REAP for Reserve Component members.

The commission recommends ending the housing stipend payments to dependents using transferred education benefits after July 1, 2017. ROA believes service members need more time to financially prepare and save more money to absorb the cost of room and board.

ROA urges Congress to extend the benefit until after September 30, 2022.

The commission recommends that Congress should approve a Sense of Congress affirming the prerogative of DoD and the Services to approve or deny Post-9/11 GI Bill transfer requests. We agree with the Commissioned Officers of the U.S. Public Health Service that, while this authority does exist in law, Congress should not broadly encourage DoD to exercise this too-easily-abused power.

12. Making Transition Assistance Programs Mandatory

ROA has no input for this proposal at this time.

13. Discontinuing the Family Subsistence Supplemental Allowance (FSSA) Benefit

ROA has no input for this proposal at this time.

14. Changes to Eligibility for Space Available Travel

The commission recommends reducing from 120 days to 30 days of deployment the point when unaccompanied dependents of service members could use Space-A travel. This recommendation is helpful and ROA supports it; however, it may be improved to account for a subtlety in wording. Reserve Component members used operationally are often sent away from station for 30 days or more in a movement that is not termed a "deployment," but is instead simply travel away from station. While not strictly a "deployment," the travel away is nonetheless stressful for family members.

ROA urges Congress to direct the services to expand Space-A travel for unaccompanied dependents of service members for 30 days or more when orders are away from station.

15. Establishment of a Military Student Identifier

This recommendation targets only active duty dependent for establishing a national military dependent student identified students to gather attendance and academic performance. The effects of deployment on families can be just as significant for Reserve Component member's family members because they are more removed from military facilities and other families experiencing the same demands.

ROA urges Congress to direct the services to establish a Military Student Identifier for active and Reserve Component dependent students.

ROA appreciates the opportunity to share views regarding the commission's 15 recommendations. We are available for any additional meetings or hearings you choose to conduct. ROA's recommendations attempt to enhance the recruiting and retention capability of our Reserve Components and the quality of life of their members and their families, while identifying any second- or third-tier effects that may occur from implementation of the report presented to Congress.

Thank you for your support for those who have served in uniform and their families. If you have any further questions, please contact ROA's legislative director, Lieutenant Colonel Susan Lukas, USAFR (Ret.) at (202) 646-7713, or by email at slukas@roa.org.

Respectfully,

Jeffrey E. Phillips
Executive Director

APPENDIX L—JOINT LETTER

15 Apr 2015

The Honorable John McCain
Chairman
Committee on Armed Services
United States Senate
Washington, DC 20510

The Honorable Jack Reed
Ranking Member
Committee on Armed Services
United States Senate
Washington, DC 20510

Dear Chairman McCain and Ranking Member Reed:

The undersigned organizations, with over 3 million members, believe there is merit to many of the recommendations by the Military Compensation and Retirement Modernization Commission, especially Recommendation 1: *Help more service members save for retirement earlier in their career, leverage the retention power of the traditional Uniformed Services retirement, and give the Services greater flexibility to retain quality people in demanding career fields by implementing a modernized retirement system.*

The commission's legislative proposal would establish a matching Thrift Savings Plan (TSP) contribution for servicemembers which helps the 83 percent of servicemembers who separate before qualifying for a 20-year military retirement. It would also allow retiring members of the National Guard and Reserve to receive a portion of their retirement pay after 20 years of service. We urge you to support both proposals in the recommendation along with various sections of Titles 5 and 10, United States Code.

In conjunction with Recommendation 1, we also ask you to consider Recommendation 3: *Promote Service Members' Financial Literacy by Implementing a More Robust Financial and Health Benefit Training Program.* By not establishing a retirement plan when they begin working, servicemembers are several years, if not a decade, behind financial planning for retirement guidelines.

We urge the committee to support legislation expanding TSP, along with financial literacy training to all military members. We believe that the recommendation *enhances* the current retirement system and is a valuable recruiting tool for a new generation of warfighters. We also believe whatever Congress passes should maintain the overall value of the retirement system, should not adversely affect retention, and the TSP match should continue throughout an individual's career.

Thank you for your consideration on this issue and your continued support to the military. We would appreciate the opportunity to talk with your staff on any of the other recommendations.

Sincerely,

Scott Van Cleef
Chairman of the Board
Air Force Association

Chief Master Sergeant John Harris, (Ret.)
President
Enlisted Association of the National Guard

Gus Hargett, Maj Gen, USA (Ret)
President
National Guard Association

Jeffrey E. Phillips
Executive Director, ROA
Reserve Officers Association

Robert E. Wallace
Executive Director
VFW Washington Office

March 6, 2015

The Honorable John McCain
Chairman, Committee on Armed Services
United States Senate
Washington, DC 20510

The Honorable Jack Reed
Ranking Member, Committee on Armed Services
United States Senate
Washington, DC 20510

The Honorable Lindsey Graham
Chairman, Personnel Subcommittee
Committee on Armed Services
United States Senate
Washington, DC 20510

The Honorable Kirsten Gillibrand
Ranking Member, Personnel Subcommittee
Committee on Armed Services
United States Senate
Washington, DC 20510

Dear Chairmen and Ranking Members:

The following organizations, a group of uniform services and veterans associations representing current and former service members and their families and survivors, wishes to share our initial views on the 15 recommendations provided by the Military Compensation and Retirement Modernization Commission.

We are grateful to the Committee and the Subcommittee for holding hearings on the commission's report. You will notice that several of the recommendations we collectively support; however, two recommendations represent a significant change to the current retirement and health care benefit structure.

The commission's proposals leave many unanswered questions and the undersigned suggest that changes of this magnitude be seriously analyzed and studied for any second and third order effects that could be harmful to sustaining the all-volunteer force.

Sincerely,

Air Force Sergeants Association
American Veterans
Association of Military Surgeons of the United States
Association of the United States Navy
Gold Star Wives of America
Jewish War Veterans of the United States of America
Military Officers Association of America
National Association for Uniformed Services
Naval Enlisted Reserve Association
The Retired Enlisted Association
United States Army Warrant Officers Association
Air Force Women Officers Associated
Army Aviation Association of America
Association of the United States Army
Fleet Reserve Association
Marine Corps League
Marine Corps Reserve Association
Military Order of the Purple Heart
National Military Family Association
Non Commissioned Officers Association
USCG Chief Petty Officers Association
Chief Warrant Officer and Warrant Officer Association of the United States Coast Guard
Military Chaplains Association of the United States of America

Recommendation 1: Help more Service members save for retirement earlier in their careers, leverage the retention power of traditional Uniformed Services retirement, and give the Services greater flexibility to retain quality people in demanding career fields by implementing a modernized retirement system.

Initial observations: We appreciate the hard work and analysis that went into the MCRMC's report and especially the retirement proposal, one that calls for a significant change to the existing system.

The current military retirement system is financially sustainable—per Department of Defense (DoD) senior leadership testimony before Congress and annual verification by the DoD Board of Actuaries—and careful thought was put into the system decades ago when it was established by Congress.

It has served the nation and the AVF very well through good times, but also and most importantly through the most challenging retention environment including periods of high operational tempo and strong civilian economic opportunity.

One of the main criticisms of the current system is that it provides no retirement credit to the 83% who never make it to 20 years of service. We support providing some degree of retirement credit for those who leave short of a career; however, it should not be done at the expense of those service members who serve twenty years and beyond. We highly recommend Congress continue to conduct a much more thorough analysis and evaluation, given the potential impact this recommendation could have on the retention of the mid-career officers and non-commissioned officers of the All-Volunteer Force.

Initial concerns:

- The recommendation provides a dramatic shift in the military culture by shifting the burden of responsibility and risk for retirement management and security from the employer—the government—on to the individual service member.
- The recommendation provides no government match to the TSP component of the retirement proposal after 20 years—this would act as a huge discouragement to serve beyond 20 YOS when seasoned, professional senior leadership is needed by the services.
- We remain very concerned that the blended retirement system could have an unintended negative effect on the ability of the services to retain sufficient mid-level NCOs and officers to 20 years of service. The combination of having a transportable career device and a reduced 20-year retirement system (a lower pension multiplier and four-fold increase in health care fees for working-age retirees) could provide a much greater draw to leave the service than to stay – especially in good economic times and high stress and operational tempo service members and families have experienced over the past 13 years.
- This recommendation makes a number of major assumptions concerning how an individual will be ensured of success in terms of retirement management and security. First, it assumes that major financial literacy will be done by the Services and second, that government-sponsored financial planners will be available at all locations to provide continued assistance to service members at every stage throughout their careers—both large, expensive and time intensive assumptions that when attempted by companies in the private sector, have fallen well short of success.

- We are concerned over the way the MCRMC demonstrates how a typical service member would realize greater financial benefit from the proposed retirement plan than they would under the current defined benefit plan. We question the assumptions behind the discount rate that the commission uses when it evaluates the future of today's pension benefit.
- The commission in their recommendation used a discount rate of 12.7% when it calculated the future value of the retirement pension of an E-7 under the current system. For an O-5, the commission used a discount rate of 6.4% - having two different discount rates is not actuarially defensible.
  - The commission explains this by stating that they are the result of surveys taken by service members. The figures provided by the commission reflect the perceived value of the benefit rather than an actual value. We recommend Congress review the actual vs. perceived value.
  - If a discount rate is used, we recommend Congress use a discount rate that, according to numerous private sector actuaries, should be approximately 2-3% because the U.S. government is the guarantor.
  - We believe the commission's assumptions greatly undervalue the current pension, no matter the grade at which the service member retires, while overstating the value of the proposed stock-market return.
- Comparisons to the private sector fail to take into consideration the unique conditions of service and the inability to transfer like skill levels back and forth as the private sector does between companies.
  - The Services must grow the skills they need; they cannot hire an Infantry company commander, a platoon sergeant, chief petty officer, or F-22 pilot with 8 to 10 years of experience.
- Additionally, the commission does not clearly address disability retirements; we recommend that the committee review the unintended consequence to a medically disabled service member's benefit as a result of lowering the length of service multiplier from 2.5% to 2.0%. This could reduce, not enhance their net monthly income.
- Finally, we have concerns with how Guard and Reserve retirement would be addressed and our initial review of the continuation pay appears to create some real inequities. These inequities could have a major negative impact on career retention in the reserve components.
- In addition, there are still unanswered questions on how the TSP matching and roll-over to employer's TSP would work for drilling reservists.

Recommendation 2: Provide more options for Service members to protect their pay for their survivors by offering new Survivor Benefit Plan coverage without Dependency and Indemnity Compensation offset.

We cannot support this recommendation.

- We are concerned that this leaves the 60,000 surviving widow/widowers who presently must absorb the offset in the same situation they are now – continuing to have their SBP annuity offset by their DIC payment. We ask Congress to find a budgetary offset to end this inequity.

- Increasing the SBP premium to 11.25 percent would discourage retirees from signing up for the higher coverage unless they were severely disabled and had no other options. Those with severe disabilities may be least able to pay higher premiums in already reduced financial circumstances.
- The SBP annuity and the DIC annuity are paid for two separate purposes. Since the retiree already pays a premium for SBP why should he/she also subsidize the payment of the VA DIC annuity?

Recommendation 3: Promote Service members' financial literacy by implementing a more robust financial and health benefit training program.

We generally support the principles of the proposal; however, we see potential problems with implementation.

Initial concerns:

- Currently some bases may share Personal Financial Managers with other bases, limiting their availability, and "messaging" from leadership already in place for Military Saves Program.
- Any plan to grow a more robust financial and health benefit training program MUST include families.
- Any plan should include education on accessing and using their military benefits to further promote financial stability and should provide greater frequency at key touch points during the military life cycle.
- Financial training is always an important part of military readiness but becomes even more imperative in light of other recommendations of the Commission, such as asking service members to manage their own retirement portfolio and asking families to make good health care program choices.

Recommendation 4: Increase efficiency within the Reserve Component by consolidating 30 Reserve Component duty statuses into 6 broader statuses.

We have supported the consolidation of duty statuses for the reserve components for many years, so we support the MCRMC recommendation in general. However, when the statuses are consolidated, we insist that following principles need to be observed.

- Protect all benefits earned by reserve component members.
- All existing operational requirements performed by National Guard and Federal Reserve members in and across state lines must be accommodated.

Recommendation 5: Ensure Service members receive the best possible combat casualty care by creating a joint readiness command, new standards for essential medical capabilities, and innovative tools to attract readiness-related medical cases to military hospitals.

We are generally not supportive of adding another bureaucratic layer onto the existing structure and question the need for this as there are already existing functions with this oversight. One positive would be that an elevated structure could render more oversight and support for Guard and Reserve medical

readiness needs as this is an area which is currently woefully un-supported. Additionally, any serious entertainment of implementing this recommendation would require closer scrutiny and analysis.

Initial observations:

- We have long supported the principle of establishing a Joint Medical Command to ensure inter-service consistency of policy and budget oversight, appropriate requirements for medical staffing, training and procurement efficiencies and more.
- MCRMC proposal has some similarities to that concept, but is much more far-reaching.
- Entails dramatic changes for delivery of beneficiary care whose impact requires significant study to assess potential adverse consequences for beneficiaries.

Initial concerns:

- Joint Command vision does not entail budget authority, but only participation in budget process with service/other players.
- This proposal is trying to fix a non-problem. Statistics from war casualties indicate a system working spectacularly well. These recommendations just add layers of bureaucracy without adding any real value.
- Appears to envision further downsizing of MTF capacity; if so, are MTFs in more remote areas at risk?
- Envisions adjusting insurance reimbursements and/or beneficiary copays as financial "sticks" to drive selected beneficiaries into MTFs rather than civilian facilities for certain procedures.
- Proposed elimination of catchment areas could be positive as long as long-distance travel to MTFs is voluntary.
- We are concerned that DoD could use proposed rate/copay-setting authority to coerce beneficiaries into using distant/inconvenient MTFs by setting stiff copay penalties for non-use (i.e., use of "sticks" vs. incentive "carrots").
- For MTF purposes, effectively subordinates beneficiaries' needs/desires to MTFs; beneficiary becomes a tool for services to maintain readiness ("operating fodder").
- We believe that Congress needs to assess the implications of opening MTFs to non-DoD-eligibles as needed to meet trauma/surgical/other professional requirements.
- Formula for allocation of readiness vs beneficiary benefit (O&M vs MilPers) has always been subject of controversy; DoD not willing to provide data in past on cost of readiness vs beneficiary benefit.
- Since MTFs need more than service member care to meet training needs, this proposal increases the potential to put MTF needs in more direct opposition to dependent/retiree/survivor beneficiary desires.
- Historically, MTFs have wanted older beneficiaries for trauma, surgery, and certain other needs, but has not had capacity to enroll them for routine/specialty care.
- Alternative proposals for the Guard and Reserve could be developed to meet MTF combat-related care needs that would be seen as benefiting rather than coercing non-AD beneficiaries (e.g., partner with insurers to establish Military Medicare HMOs that enroll only DoD eligibles and establish the

local MTF as the HMO's provider for certain surgical and other services...this was once proposed by a former AF/SG).

Recommendation 6: Increase access, choice, and value of health care far active-duty family members, Reserve Component members, and retirees by allowing beneficiaries to choose from a selection of commercial insurance plans offered through a Department of Defense health benefit program.

Generally we do not support wholesale change of this magnitude but conversely cannot accept the current status quo. There are key details which the proposal does not address and many unanswered questions which prohibit agreement on a proposal such as this. We recommend Congress review this proposal and consider the wide range of extra costs that would be incurred by additional studies, implementation costs, and costs which were not documented by the Commission. We recommend that the Guard and Reserve members could be enrolled into existing FEHBP programs with cap's on cost for these members.

Initial observations:

- The Commission's description of problems with TRICARE Prime are on the mark however instead of fixing the TRICARE program the answer is to eliminate it and have beneficiaries pay more for the fix.
- That the proposal becomes one of greater choice for greater cost.
- Many beneficiaries would defer needed medical exams to conserve money – families may also do the same to keep more of the funds in their health savings accounts.
- But the proposed change is an extremely radical one that could have far-reaching implications now and in the future.
- Such a dramatic change in the entire philosophy of delivering military health coverage requires extensive and thorough review to ensure it meets beneficiary needs without changing fundamental benefit value or leading to significant unintended consequences.
- We agree that coverage should be improved for the Guard/Reserve community and access to care should be expanded to maintain continuity but not at an increase in cost.

Initial concerns:

- We oppose funding care for non TFL-eligibles through the MERHC or other health care trust fund
  - This would add significantly more funds to the "mandatory spending" category Congress has sought to reduce.
  - It also would impose major administrative roadblocks to any program enhancements or correcting unforeseen inequities that may prove needed in the future.
- The proposal says the TRICARE Pharmacy program would be retained, but most civilian health plans such as those envisioned to be administered through OPM entail some level of Rx coverage.
  - To the extent the plan selected includes such coverage, it would render the TRICARE pharmacy program (and especially the lower-cost mail-order program) virtually unusable for the beneficiary

- Does the plan envision that the OPM-administered plans for DoD beneficiaries would not include Rx coverage?

- Envisions establishing beneficiary copays in MTFs (We strongly oppose).
- To the extent premiums and copays vary by locality, this would be a dramatic and unwelcome departure from what has been a uniform program, regardless of locality.
- Putting this major military health benefit under the administration of OPM appears to be a significant step toward treating military beneficiaries like federal civilians for health care purposes.
  - Military beneficiaries incur unique and extraordinary sacrifices that are unlike the service conditions of any civilian, and their health benefits have been intended to be significantly better than civilian programs.
- To what extent would this proposal have to be approved by congressional committees, such as Health and Human Services (HHS) that oversee federal civilian/OPM issues? What is the likelihood of agreement/disagreement from that quarter?
- The MTFs are sized to maintain medical readiness and not all possible beneficiaries. The TRICARE network is structured, by design, to flex to handle the readiness and beneficiary need and demand.
- No matter how the system is structured, the basic principle must be to fully optimize the MTFs. No matter how it happens, any system which weakens the position of the MTFs threatens to destroy our capability to adequately support the warfare plans of the CINCs.
- We are concerned that the Commission states overtly that its intent is to raise beneficiary costs as a means of retarding DoD beneficiaries' health care usage, which has exceeded civilian usage.
  - But this ignores that there are many reasons for the usage statistics differential (e.g., military system has not been proactive in providing ways to meet beneficiary needs for such things as off-hours care, or in publicizing those that exist)
- We have never accepted assertions that implementation of TRICARE in the 1990s entailed covering 27% of DoD costs.
  - In our negotiations with DoD in setting payment rates for that initial program, no percentage of costs was ever discussed.
  - We have made numerous requests for the data on how that calculation was made, but it has never been provided by DoD.
  - We also believe there is a significant disconnect between the commission's 5% assertion and what DoD has reported as 8.2% in the FY 2016 budget submission. We highly recommend Congress understand the differences in this calculation.
  - We do not believe beneficiaries' costs should be based on DoD costs, because that forces beneficiaries to subsidize DoD inefficiencies and oversight failures.
- We believe the envisioned 20% premium cost share for retirees is substantially too high, regardless of any phase-in period, and that such a standard devalues the in-kind premiums contributed through decades of arduous service and sacrifice that were acknowledged in previous cost-share setting.
- Fundamental issue that needs to be addressed: "what is the premium value of decades of service and sacrifice in uniform?"
  - This needs to be formally recognized in the cost-sharing determination.

  - In the past, this has been implicit: zero cash premium for TRICARE Standard, and a modest cash premium (a minor fraction of FEHBP premiums) and very low copays in TRICARE Prime.
  - Commission confirms there should still be zero cash premium for TFL supplement to Medicare.
  - Whatever military people are asked to pay in any new plan should be consistent with that history of premium-setting.
  - Service in recent decades of continuous war has to be at least as valuable as service rendered in previous decades.
- There are other significant inequities in the proposed premiums, such as the proposal to set former spouses' cost share (5%) at one-fourth of the retired member's (20% ultimately).
- The proposal does not address the unique circumstances of severely disabled service members once they are retired from service and survivors.
- The proposal does not address what would be available to retired members/families/survivors who reside overseas and currently have access to TRICARE.
- The proposal to set annual premiums and health care allowance levels at the median expense experienced by beneficiaries in the previous year could have the potential to depress rates over time based on the depressive effect of those who chose for budgetary or other reasons to elect lower-tier coverage.
- The proposal would set the health care allowance at the amount necessary to cover the average plan in each locality...but isn't military-provided coverage, by definition, supposed to be significantly better than average?
- No mention is made of what level of catastrophic cap would be placed on annual out-of-pocket healthcare expenses for active duty and retired members/families.
- How did the Commission develop/calculate data on beneficiaries' perceived value of program changes (increased access, etc.)?
- To the extent that beneficiaries would be shifted to private insurance plans and right-sizing of MTFs, the assumption seems to be that some level of care would be shifted to civilian providers. But there already is considerable concern about the adequacy of civilian capacity in coming years, especially with many doctors retiring and millions of newly covered ACA beneficiaries competing for access.
- While we share the Commission's concern about problems experienced with TRICARE Prime, the main question is whether it takes such a radical change to address those problems.
- In the end, the main beneficiary concerns come down to (a) access to quality care, (b) cost to the beneficiary, and (c) preservation of DoD's unique employer responsibility to provide its career service members and families a top-tier health program to help incentivize decades of service in the face of extraordinary (including wartime) hardships.

Recommendation 7: Improve support for Service members' dependents with special needs by aligning services offered under the Extended Care Health Option to those of state Medicaid waiver programs.

We support the Commission proposal. We applaud and support the Commission for addressing issues experienced by military families with special needs. We agree with the recommendation and the intent to improve support for these beneficiaries by aligning services offered under the Extended Care Health

Option (ECHO program) to those of state Medicare waiver programs. We believe that Guard and Reserve families are particularly vulnerable during transitional periods and should have an extension of support. It is imperative that the benefit must include members of all seven of the uniformed services.

Initial concerns – The critical benefit must capture members of all seven of the uniformed services and we are concerned that Guard and Reserve families may have a difficult time transitioning in and out of the ECHO program. Finally, it is important to consider a transitional benefit (1-3 years) for these vulnerable families as they leave active duty service. We believe it will be important to examine a transitional benefit for those who have depended on this program and will find themselves at the bottom of the state Medicaid lists upon separation/retirement.

Recommendation 8: Improve collaboration between the Departments of Defense and Veterans Affairs by enforcing coordination on electronic medical records, a uniform formulary for transitioning Service members, common services, and reimbursements.

We support a dramatic improvement in the collaboration between the DoD and VA and there exist some excellent examples, such as the joint DoD/VA health care facility in North Chicago. We have for many years advocated for legislative authority to grant the existing Joint Executive Committee additional authority and responsibility to enforce collaboration. Many of the issues impeding progress range from a common electronic medical record to joint facility and acquisition planning can be accomplished in a transparent manner. We note that based on theory this should work, but is skeptical that this will provide a true solution to the historic problems of VA/DoD collaboration.

Initial concerns:

- From our perspective, a single Uniform Formulary would be beneficial only if the formulary is larger, e.g., adopt the DoD formulary in order to make sure service members who transition from DoD to VA can maintain their prescription meds and to make sure other veterans have access to whatever medications they may need.
- How do we ensure access to National Guard medical records which are the property of the respective states and are extremely difficult to obtain?
- If the Reserve Component is transitioned to TRICARE Choice, then how will DoD/VA interface with private providers to make sure military records are up-to-date and accurate?
- Would contractors like Logistics Health Incorporated (LHI) continue to be the clearinghouse between DoD and private providers?

Recommendation 9: Protect both access to and savings at Department of Defense commissaries and exchanges by consolidating these activities into a single defense resale organization.

We would not support any proposal that diminishes the commissary and exchange benefits. Further review is necessary on how these changes would secure these benefits at the current level i.e. average savings for military families of 30 % and contributions of exchange profits to the MWR programs.

We are grateful that the Commission's thorough review substantiates the value of commissary and exchange benefits, and recognizes that families really do rely on the savings they provide. We appreciate the Commission's focus on finding efficiencies and cost savings to sustain commissary and exchange benefits. We support improving the viability and stability of these systems in order to protect these benefits. We have opposed consolidation because there has been no proposal that preserved the level of savings, revenue stream for MWR, and jobs for military families provided by the commissary and exchanges. Any proposal to change the existing structure must secure those benefits at their current levels. This proposal leaves us unconvinced that these benefits will be secure. We stress there should be no changes in law that diminish the commissary and exchange benefits, and no budget reductions until further reviews are completed.

Initial concerns:

- The Commission's recommendations should be evaluated against the FY15 congressionally mandated review of commissary and exchange systems.
- The proposed recommendations need to be thoroughly vetted to safeguard these cherished benefits, which are used by 90 percent of the military community, consistently rank as one of their most valued earned benefits, and provide much needed savings and employment for military families and veterans.
- Previous attempts to combine operations for just the Exchange systems have encountered huge roadblocks due to logistical challenges and Service objections. What are the details for the proposal to combine the Exchange and Commissary operations that would overcome previous roadblocks?

Recommendation 10: Improve access to child care on military installations by ensuring the Department of Defense has the information and budgeting tools to provide child care within 90 days of need.

We support the Commission's proposal and are grateful for recognizing the importance of child care for military families and appreciate that there will be greater visibility on waiting lists and the scope of this issue; however, we have some concerns and recommendations.

Initial concerns:

- DoD has to continue to pursue innovative solutions to meet this need beyond just building more brick and mortar CDCs. Other issues for consideration when addressing the challenges of finding and securing affordable childcare include: wait list prioritization and realignment of existing programs to meet the shift back to a garrison based force (24 hour and weekend care for duty, 7 day a week operation, extended day options).
- DoD should use this opportunity for collecting data to find a way forward that determines the prioritization of military families on the waiting list.

Recommendation 11: Safeguard education benefits for Service members by reducing redundancy and ensuring the fiscal sustainability of education programs.

We generally support much of the recommendation, including closing the Reserve Education Assistance Program and transitioning eligible reservists to the Post 9/11 GI Bill, however we have some concerns and recommendations.

Initial concerns:

- DoD should refund the entire $1,200 to all service members who paid into the MGIB but were eligible for Post 9/11 benefits.
- We strongly object to the MCRMC recommendation to *end housing stipend payments to dependents using transferred education benefits* after July 1, 2017 on contracts in force up until that date. DoD should not break faith with service families on existing transfer agreements in place as of 1 July 2017. Specifically, where service agreements have already been signed and/or fulfilled for transferability, BAH for dependents must be honored, and service members with such contracts should not have to meet a new threshold of service. These individuals should not have to meet a new threshold of ten years of service plus an additional commitment of two years. All aspects of this contract should be grandfathered for those who have already fulfilled the commitment including the housing stipend.
- We object to eliminating unemployment compensation for anyone receiving housing stipends under the Post-9/11 GI Bill. We should not treat service members differently from all other Americans when it comes to eligibility for unemployment insurance.
- We recommend DoD review its policy / procedures and set transferability service commitments to support career force retention. We do not support the specific recommendation to raise the service commitment by 2 years to 12 years total service (excluding obligated periods of service incurred by other means such as Service Academy or ROTC 'payback' time).
- The MCRMC did not offer any recommendation re the MGIB-SELRES. Originally, the MGIB – SELRES program paid 47 – 48 cents to the dollar compared to rates for the MGIB – Active Duty for the first 14 years of its existence (1985 – 1999). Thereafter, the Services and Reserve Components allowed the program to dwindle to a current ratio of 21 cents to the dollar compared to the MGIB – AD. The likely reason for the steep decline in the benefit is that the program competes for funding directly against annual discretionary reserve pay and benefit accounts. The MGIB – AD and the Post 9/11 GI Bill are mandatory funding programs under Title 38. We have long maintained that the MGIB – SELRES should be re-codified as a sub-chapter in Chapter 33, 38 USC as an initial entry benefit for reservists. As a Title 10 discretionary program DoD has refused to sustain it as recruitment tool. In line with the MCRMC recommendation on having a single GI Bill educational platform, the MGIB – SELRES belongs in Title 38.
- We support the collection of information related to, but not limited to, graduation rates, course competition rates, course dropout rates, course failure rates, certificates and degrees being pursued, and employment rates after graduation, and include that information in an annual report to the Congress. Collecting and tracking these data should be the joint responsibility of the Dept. of Veterans Affairs and Dept. of Education in coordination with DoD.
- Reference Military Tuition Assistance (TA) Service policy, we believe that TA should be used by the Services as they see fit for a variety of force management purposes: as an incentive for continued

service; professional development; to obtain civilian credentials, prepare service members for more competitive assignments and for related purposes.

- We are not supportive of a "sense of Congress resolution" affirming that DoD and the Military Services may approve or deny requests to transfer post-9/11 GI Bill benefits in such a way that encourages retention of individuals in the Military Services, and recommending that they be more selective in granting transferability of Post-9/11 GI Bill benefits. Such as resolution is unnecessary as Congress granted DoD explicit statutory authority to manage service commitment policy under the Post-9/11 GI Bill transfer program established in Chapter 33, 38 USC.

Recommendation 12: Better prepare Service members for transition to civilian life by expanding education and granting states more flexibility to administer the Jobs for Veterans State Grants Program.

We generally support the recommendation with two caveats: Mandatory participation in Transition GPS and similar programs should occur at key milestones throughout a service member's career (i.e., upon second enlistment, at 10 year mark, within 2 years of retirement, not just a one-time event. Also, additional accommodations should be made for families, highlighting existing resources and tools to help the entire family have a successful transition.

Recommendation 13: Ensure Service members receive financial assistance to cover nutritional needs by providing them cost-effective supplemental benefits.

We support the recommendation. This proposal will help more families in need to access nutritional and financial support and helps shine light on SNAP program and WIC overseas – essential programs for military families, which rely on a viable commissary benefit. Financial education is key and further data collection will be needed.

Recommendation 14: Expand Space-Available travel to more dependents of Service members by allowing travel by dependents of Service members deployed for 30 days or more.

We support the recommendation.

Recommendation 15: Measure how the challenges of military life affect children's school work by implementing a national military dependent student identifier.

We support the recommendation. One item that remains unclear is whether or not information will be collected on children of AD parents/guardians of all of the Uniformed Services or just the Armed Forces. We support inclusion of all Uniformed Services.

APPENDIX M—STATEMENT OF THE VETERANS OF FOREIGN WARS OF THE UNITED STATES

STATEMENT FOR THE RECORD OF

BRENDON GEHRKE, SENIOR LEGISLATIVE ASSOCIATE
NATIONAL LEGISLATIVE SERVICE
VETERANS OF FOREIGN WARS OF THE UNITED STATES

TO THE

SENATE ARMED SERVICES COMMITTEE

WITH RESPECT TO

Recommendations Made By The
Military Compensation & Retirement Modernization Commission

WASHINGTON, DC March 25, 2015

Chairman McCain, Ranking Member Reed, and Members of the Committee:

On behalf of the nearly 1.9 million members of the Veterans of Foreign Wars of the United States and our Auxiliaries, thank you for the opportunity to present our views regarding the Military Compensation and Retirement Modernization Commission's recommendations. We thank the Commission for its hard word and appreciate that the Committee is addressing the report in a timely manner.

The Commission's recommendations and the continuing efforts by the Department of Defense to shift personnel expenses has initiated an important conversation with Congress and the American people about what it means to take proper care of veterans, service members and their families. First and foremost, the VFW believes that properly caring for America's wounded, ill, and injured service members and veterans, as is preserving the integrity and viability of the All-Volunteer Force is paramount.

The Commission's report validates many of the VFW's assumptions that the government in many ways is failing to appropriately compensate and care for the men and women of the armed forces. Most notably, the Commission recognizes that the country has an obligation to better help all service members save for retirement, protect the pay of their survivors, improve their choice and access to quality health care, and safeguard their education benefits. We applaud the Commission for developing policy ideas that will to modernize the military retirement and compensation system in a way that provides new, substantial and fiscally sustainable benefits to service members, retirees and their families.

Recommendation #1: Help more service members save for retirement earlier, and leverage the retention power of the traditional retirement program.

The VFW strongly supports Recommendation 1.

In addition to a defined benefits plan similar to what service members currently receive, this recommendation includes a government matching retirement contribution for all service members, and continuation pay for potential career service members. The monumental proposal would provide every service member with a government contribution through out their entire career to the current Thrift Savings Plan (TSP) that can be rolled over into a traditional 401(k)-type account upon discharge. The Commission also recommends that Reserve component members, who have played a crucial part in the war against terrorism, receive partial retirement immediately after retiring from service. We believe that it is not only fair to provide all service members with some retirement compensation, especially those who deploy several times to combat zones before exiting short of 20 years, but its our patriotic duty to prepare all service members for retirement.

Most service members fall behind their civilian peers when it comes to saving for retirement due to their military service. According to the Department of Labor (DOL), most full-time workers and employees of large companies have access to and participate in, defined contribution plans. Nearly 80 percent of full-time workers have access to employer-sponsored retirement plans, and more than 80 percent of these workers participate in a plan. At companies with 500 workers or more, 90 percent have access to employer-sponsored retirement plans. Meanwhile, 90 percent of service members receive nothing for retirement. In addition, 95 percent of employers with 401(k) plans made a matching contribution to their employees; again, the government makes no contribution to the service members' 401(k)-style accounts. We believe that the government should contibute to a service members' 401(k) plan throughout their entire career. By not providing retirement parity between the civilian and military sectors, we are sending the message to troops that the country does not value their military service.

Survey data shows that the current compensation and retirement system is leading to low morale. In 2014, only 44 percent of active-duty troops rated their compensation as "good" or "excellent." Most service members live paycheck to paycheck, and are often unable to pay for life's unexpected emergencies, let alone save much for retirement. In fact, that is the premise behind the VFW's ***Unmet Needs*** program. Since our program's inception, the VFW has distributed $5 million in assistance to qualified military families, with nearly half of those funds going directly toward basic housing needs. However, having access to a 401(k) may positively impact a sense for what is financially possible. According to Wells Fargo, more than half of non-retirees without access to a 401(k) plan say "it is not possible" to pay bills and "still" save for retirement, compared to a third of those who have access to a plan, but say they can't save and pay bills at the same time. We believe that when a service member sees the employer's contributions in their annual TSP investment statement much of their financial concerns will be alleviated and their morale will increase.

The 401(k) makes a significant difference for people in that it gives them the ability to save in a regular, systematic way. It conditions people to think that saving money is paying for their

future and is just as important as paying day-to-day bills. Those who have access to a 401(k) are more likely to say they would give up certain expenses, big purchases or expenditures like eating out in order to save for retirement, at a rate approximately 10 percentage points higher than those without access to a 401(k). Simply put, middle-class Americans, regardless of their military affiliation, value the 401(k) as a way to create a retirement nest egg.

Personal finance experts know the issue all too well: there is a pressing need for Americans to participate in a 401(k), individual retirement account or some sort of structured, tax-deferred account to take them through their post-employment years. If young service members aren't saving today, they are losing the benefit of time compounding the value of their money. That growth can't be made up later, so service members have to commit early in life to make savings a regular discipline year after year – it is the only way most people will achieve their financial goals to carry them through retirement. However, junior service members don't make enough money to invest the 7 to 10 percent of their base salary needed to build a sufficient nest egg without an employer contribution. The negative consequences of low pay raises and no employer retirement contributions will be felt by service members throughout their life. Therefore, it is easy to empathize with dissatisfied service members who are feeling a detachment from government and military leaders who can pay for them to go to war but cannot find a way to give them a pay raise or contribute to their retirement.

Congress must consider a host of tangible and intangible factors when weighing military recruiting, retention and longevity. We understand some have expressed concern that a blended retirement plan would incentivize personnel to separate and create a retention problem in the midgrade officer and enlisted ranks. However, we believe that the current government retirement system is not enough to maintain the all-volunteer force. Combat and imminent danger pay, special duty pay, tax breaks, and large re-enlistment bonuses have kept the all-volunteer force afloat during the past 13 years of war – not the current retirement system. As pay raises and career bonuses disappear, troops are reporting a significant decline in their desire to re-enlist, down 10 percent from five years ago. Congress will likely have to modernize the retirement system if the military is going to persuade young service members to extend their service beyond their initial obligated time and bring stellar service members closer to the 10-year point where they feel the "pull" of defined retirement benefits.

The VFW can enthusiastically support the government match of existing TSP programs and increasing Reserve components retirement pay, but not at the expense of lowering the long-term value of the existing military retirement system. Fortunately, the Commission's blended plan could increase an individual's overall investment savings potential regardless of the length of their military service, when reducing the existing military retirement benefit from 50 percent of base pay to 40 percent. Congress can and should ensure that the reduction in the defined contribution percentage is off-set by increasing TSP investments and annual continuation bonuses to maintain the current overall value of the service members' retirement savings. It is vitally important that Congress provide sufficient TSP contributions throughout the service members' career, including after the service members' 20 year service anniversary. Congress will have to modernize the current retirement system if the military is going to compete for the best and brightest service members against private and government employers who offer a portable, employer matching retirement plan.

Recommendation #2: Offer new Survivor Benefit Plan (SBP) coverage without the Dependency and Indemnity Compensation (DIC) offset.

The VFW cautiously supports Recommendation 2.

The Commission's recommendation calls for a modifification of the current SBP program. It would provide service members with the option to increase their monthly premiums from 6.5 percent to 11.25 percent of their base retirement pay, approximately a $55 difference between today's premium and the proposed plan. In return, their surviving spouse would receive both SBP and DIC payments. DIC is a tax free monetary benefit paid by Department of Veterans Affairs (VA) to eligible survivors of service members who died in the line of duty or veterans who died from a serviee-connected injury or disease. SBP is a life insurance plan that service members purchase from the Department of Defense (DOD) so their surviving spouse will receive a portion of their military retirement when the service member passes away. However, if the surviving spouse receives the DOD's SBP payment, the payment has dollar-for-dollar offset if they also receive a DIC payment. The VFW agrees with the Commission that Congress should provide eligible surviving dependents with a way to receive both DIC and SBP benefits.

Congress has created a confusing maze of offsets. The compensation system denies retirees and their spouses the military compensation that they have earned by combining separate but equal veterans and military benefits into one significantly smaller benefit in order to limit government costs. Whenever Congress creates a new offset, the VFW and our allies have stormed Capitol Hill with real life examples of how these unjust offsets hurt veterans and survivors. In many cases, Congress has recognized the error of their ways by eliminating these harmful offsets. Most recently, Congress has recognized the SBP-DIC offset as unfair by creating a Special Survivor Indemnity Allowance (SSIA) to offset the offset. SSIA is a monthly payment that started at $50 in FY 2008 and will be raised yearly up to $310 through FY 2016. However, SSIA is only a temporary fix that ends in FY2017. We urge Congress to find a better and a more permanent fix to the SBP-DIC offset for current and future surviving spouses before SSIA expires.

While we concur with the Commission's premise to eliminate the offset. We also agree with the widely accepted opinion that the requirement for surviving spouses to pay for their DIC by waiving the SBP is inconsistent with the intended purpose behind the two benefits. The SBP program is simply an insurance benefit paid for by military retirees. DIC is a benefit meant to compensate the veteran's family for losing a loved one whose death was a direct result of military service. No other federal retiree program penalizes surviving spouses, whereas more than 59,000 surviving military spouses are affected by this aptly termed "widow's tax." The VFW's urges Congress to fully repeal the SBP-DIC offset, not to subsidize it out of the pockets of survivor.

However, we recognize that the proposed plan would provide expanded financial options for military retirees who also suffer from a service-connected disability. For example, an E7, who retires with 20 YOS at age 38, premium would increase from $143.52 to $198.68. However, upon the death of the veteran, the survivor's annuity would increase from $1215.00 to $2186.30. The monetary value of the new plan would have a huge impact on the long-term financial well-

being of the survivor. Consider an O5, who retires with 20 YOS at age 42 with a spouse of similar age, pays into SBP to age 72 (30 years) then dies, and the survivor lives an additional 15 years-until age 87. Under the proposed plan, the survivor would receive an additional $218,700 in DIC payments over the remainder of his or her life. In addition to the hundreds of thousands of dollars that they would inherit from the service member's TSP account. Considering the substantial benefits this would have on a survivor, and the current untenable SBP-DIC offset, we currently believe this is the best option next to completely eliminating the offset.

Recommendation #3: Increase military, financial literacy training.

The VFW strongly supports Recommendation 3.

Service members can lose security clearances and are subject to a variety of judicial and non-judicial punishments for failing to meet their financial obligations. It would behoove the services to adopt this low-cost initiative now, and encourage military spouse participation, regardless of the possible introduction of a more robust Thrift Savings Plan or SBP-DIC program.

Recommendation #4: Consolidate 30 Reserve Component duty statuses into six.

The VFW supports Recommendation 4 with additional recommendations.

The VFW urges Congress to ensure that wounded guardsmen and reservists receive the G.I. Bill benefits they've earned when consolidating the 30 Reserve Component duty statuses into 6. The military often gives orders under title 10 USC 12301(h) to members of the Reserve Component who are injured in combat for their recovery, treatment, and rehabilitation. Unfortunately, unlike active duty service members, federal regulation prohibits reserve component members from earning G.I. Bill benefits while under these orders. Therefore, guardsmen and reservists actually lose benefits for being injured in the line of duty. The law is inherently unjust and undermines the intent of the G.I. Bill, to help service members' transition from active duty to civilian status.

The VFW also supports the award of a DD-214 form to all separating Reserve Component personnel. Regarding the DD-214, all active, Guard and Reserve veterans are eligible for VA medical care, as well as compensation and pension, if a service-connected injury or illness occurred while on active duty. In order to be eligible for VA benefits, the veteran must present proof of active military service in the form of a DD-214. However, a member of the Guard or Reserve only receives a DD-214 if they served 90 days of continuous active duty, although Service secretaries have the authority to issue the forms for shorter time periods. The Reserve Component has contributed a quarter of all ground forces deployed to Iraq and Afghanistan over the past 13 years, and half of all Air Force airlift, yet similar to the active force, not every Reserve Component member has had the opportunity to deploy, much less be activated, for 90 consecutive days. Therefore, the VFW urges Congress to delete the 90-day activation requirement in Title 10, U.S. Code, and provide the DD Form 214 to all Reserve Component members who separate or retire under conditions other than dishonorable.

The VFW also supports legislation to retroactively grant early retirement credit, with a carryover provision, to all Reserve Component members who were activated in support of a contingency

operation from 9/11 forward. Reserve Component retirees are eligible to begin receiving their military retirement pay at age 60. In an effort to recognize their faithful service during the War on Terror, the FY 2008 NDAA allowed National Guard and Reserve members to lower their retirement pay eligibility age by three months for every 90 days served on active duty after January 29, 2008. However, a loophole in the law prevented service members from earning early retirement credit if their 90-day activation did not occur within the same fiscal year. The FY 2015 NDAA contains a carryover provision, but its implementation date of Oct. 1, 2014, discounts the orginial intent and the sacrifice of thousands of other Reserve Component members who activated for long periods of time before the new law's enactment date. We thank Congress for recognizing the inequities in the reserve credit retirement system last year and urge you to make the credit retroactive to September 11, 2001.

Recommendation #5: Create a joint readiness command to ensure service members receive the best possible combat casualty care.

The VFW supports the intent of Recommendation 5.

We agree with the Commission regarding the critical nature of joint medical readiness; however, adding another layer of bueracracy to medical care coordination does not unify the effort. Army, Navy and Air Force medical professionals have the capability to provide a high level of care to all eligible service members, dependents and retirees, yet a 2006 Defense Department proposal to create a Joint Military Medical Command, continues to be ignored. The VFW believes that a Joint Military Medical Command is needed to create a unified system with stronger central authority to improve coordination among the services. Regrettably, inter-service rivalries and perceived mission differences between the services are preventing the care from being efficiently delivered. Yet, despite the unwillingness of the services to discuss a joint command, some universal medical processes and operations have already successfully merged.

Military medicine operates in a joint world, from contingency and humanitarian deployments to meeting the daily healthcare needs of more than 9 million multiservice beneficiaries with 59 inpatient hospitals and 364 clinics. The Army Medical Research and Material Command at Fort Detrick, MD aligns all military research. All enlisted medics and corpsmen are trained at Fort Sam Houston, TX. Information management and technology, facilities management, contracting and procurement, and logistical and financial support services are being consolidated; and 45 percent of total beneficiaries are now being served by the Defense Health Agency, which was activated in 2013 to merge military medicine in six major markets.

The military medical communities can no longer afford a parochial attitude. Especially, not with a downsized military, reduced defense budgets, threats of new base closure rounds, a continued high operations tempo, and the still unfulfilled requirement to create one interoperable electronic health record between DOD and the Department of Veterans Affairs. GAO estimated that realigning DOD's military medical command structures and consolidating common functions could increase efficiency and result in projected savings ranging from $281 million to $460 million annually. The Defense Health Agency has proven that the future of military medicine is in jointness. The services need to stop resisting and start discussing how to get here to there.

Recommendation #6: Allow military TRICARE beneficiaries the ability to choose from a selection of commercial insurance plans to be offered through a Department of Defense Health Benefit Program.

The VFW supports the intent of Recommendation 6.

The recommendation to allow beneficiaries to choose from a selection of commercial insurance plans offered through a Department of Defense health benefits program is worth consideration. Service members, veterans, and their families have told us that they often experience considerable access problems to healthcare. The Government Accountability Office (GAO) validated these comments when they reported that although nearly all civilian care providers in certain geographic areas were accepting new patients, less than half were accepting new Tricare patients. The lack of choice to beneficiaries not only creates access issues but also raises concerns about the quality of care military healthcare beneficiaries receive. The best hospitals in the country often deny veterans and military families care because Tricare's reimbursement rates are too low. We appreciate that the Commission recognized the current access, choice, and value of healthcare provided to service members, veterans, and their families is unacceptable.

The VFW believes that plans providing medical care to military healthcare beneficiaries should be kept competitive with the access and quality delivered by private insurance. However, any new military health care system must do more than shift the responsibility of care away from the military as a provider and on to military families as ordinary consumers at a substantially higher price to the beneficiaries. Before Congress makes changes to the current military healthcare system, retirees need assurances that the access and quality of care they will gain will be proportionate to any additional cost that they will incur. In addition, retirees and military families must not experience any interruptions in services during the transition. We urge Congress to thoroughly study the consequences of the Commission's recommendations before drafting legislation, and to continue to consult with Veterans Service Organizations.

Recommendation #7: Improve support for military dependents with special needs.

The VFW supports Recommendation 7.

Recommendation #8: Enforce electronic medical record collaboration between DOD and VA, and create a common formulary.

The VFW strongly supports Recommendation 8.

The Commission recommended that Congress authorize the DOD-VA Joint Executive Committee (JEC) to standardize and enforce the common services between the DOD and the VA. History has shown one failure after another when the JEC is limited to only conducting oversight of joint DOD-VA projects after Congress has invested the funds.

We have met with both departments and have heard they have the same goals. However, there have been opportunities for DOD and VA to work together to improve their electronic healtheare system, but they have continually failed to come together to improve the continuity of care for

service members. DOD and VA must work together to create an interoperable system whereby DOD and VA physicians can provide top-notch treatment for service members and veterans. By allowing the JEC to set and enforce milestones and assist in the design and implementation of the system, Congress will be much more effective at holding DOD accountable for producing timely and reliable results.

We believe that the agencies must deliver the promise of an interoperable, bi-directional electronic health record for military members and veterans as soon as possible. An interoperable health record would not only improve the quality and continuity of health care for service members and veterans, but is a critical part of ending the persistent VA backlog of service-connected disability claims. The VFW strongly encourages Congress to act immediately on this recommendation.

Recommendation #9: Merge the Defense Commissary Agency and three military exchanges systems into one organization.

The VFW supports Recommendation 9, provided that service members retain the overall commissary savings value, and Morale, Welfare and Recreation program contributions remain unaffected or are enhanced by the merger.

Recommendation #10: Improve access to child care on military installation.

The VFW supports recommendation 10.

Recommendation #11: Safeguard service member education benefits, reduce redundancy, and ensure fiscal sustainability.

The VFW supports Recommendation 11.

The Commission recommended that the VA consolidate all education benefits into a single program, extend the time commitment required to obtain the transferability benefit, and eliminate the Basic Housing Allowance for dependents. The VFW played an integral role in passing the Post-9/11 G.I. Bill, and we have a vested interest in ensuring that the veterans who utilize this robust benefit receive quality educational and vocational training outcomes. Military and veterans' education benefits provide a critical tool to ensure that those who have defended our Nation can compete for the best jobs after service. We believe the country has a vested interest in ensuring that federal education dollars for our military men and women are spent in a responsible manner - training veterans, the future leaders of our country.

The Commission rightfully took issue with a misalignment of veterans' needs and the Defense Department's incentive to allow service members to transfer their GI Bill benefits to their dependents. We believe the G.I. Bill's primary use should be to help veterans reintegrate into civilian life by providing the education and skills necessary to gain meaningful employment. The G.I. Bill should not be a retention tool for the Defense Department to use that VA pays for. For this reason, we do not believe that DOD should have the authority to allow service members to transfer their G.I. Bill benefits. VA should have the authority to grant transferability to service

members who served or have promised to serve for 20 years in the military as recognition of the unique sacrifice that career military families make during 20 years of service.

The Commission recommended "duplicative education assistance programs should be sunset to reduce administrative costs and to simplify the education benefits system." To do so, Congress would have to choose between two options. First, extend full Post-9/11 G.I. Bill benefits to all service members and veterans, including all Reserve Component members. The second option would be to create a scaled system in which certain categories of veterans will receive different percentages of the G.I. Bill depending on whether they served on active duty, reserve status or during a time of war. This would work similarly to how VA awards a certain percentage of the Post-9/11 G.I. Bill to Reserve Component service members depending on the amount of time they serve on active-duty. The VFW believes that war veterans, including guardsmen and reservists, should not receive less of a benefit than dependents or other veterans.

The VFW is disappointed that the Commission did not address the inequity of benefits between veterans from the Reserve Component who deployed overseas, non-wartime veterans, and dependents. Currently, a Marine reservist could deploy to a combat zone, receive a Purple Heart and still only receive 60 percent of his or her G.I. Bill. On the same note, a guardsman, who deployed twice to a combat zone only, receives 80 percent of their G.I. Bill. Meanwhile, a dependent of an active duty veteran who never served during wartime, would receive 100 percent of their G.I. Bill, regardless of the dependent's affiliation with the military in their adult life. The eligibility requirement for Reserve Component members is inherently unjust, and Congress should work to increase the percentage of the G.I. Bill benefit that reserve component members receive if they served in a combat zone.

The VFW strongly supports the requirement for institutions of higher learning to submit reports to VA regarding student veterans' progress. We believe that the federal government must insist on transparency from institutions of higher education that receive taxpayer-funded education dollars. Transparency will provide the necessary incentives for schools to focus on quality education outcomes, instead of raw enrollment.

Recommendation #12: Better prepare service members for transitioning into civilian life by expanding education and granting states more flexibility to administer the jobs for veterans state grants program.

The VFW supports Recommendation 12.

The VFW supports the Commission's recommendations for Congress to reevaluate the current Transition GPS curriculum, encourage state collaboration in coordinating the JVSG program, encourage employees to attend Transition GPS classes and require a joint report from DOD, VA, and DOL on the challenges employers face when seeking to hire veterans. Over the past few years, this committee's work has produced a significant evolution in the way the military prepares transitioning service members for civilian life. These positive changes include mandatory Transition Assistance Program (TAP) for all service members, the creation of the Off-Base Transition Training (OBTT) pilot program, and a complete redesign of a TAP

curriculum that includes three specific transition tracks. The Commission's recommendations will build on the good work the Committee and agencies have already accomplished.

When DOL sought to replace Disabled Veterans Outreach Program (DVOP) and Local Veterans Employment Representatives (LVER) with contract TAP instructors, the goal was to ensure that DVOPs and LVERs would no longer have to dedicate an inordinate amount of time to teaching and could instead focus on developing employment opportunities for veterans in the community. The VFW agrees with this shift to contract employees whose primary function is to provide information to service members, freeing up local resources to focus on local veteran employment. When speaking with service members, we find that missing the direct connection to DVOPs and LVERs, who work every day in veteran employment, proves problematic in helping them understand the scope of services and benefits available to them in the community. To close this gap, we agree that DOL should track when and where its employees attend Transition GPS classes, and the number of veterans DVOP /LVERS interact with and follow up with after separation.

The VFW supports ensuring that transitioning service members have access to the full suite of transitional training, should they so choose. However, the VFW understands the operational limitations in mandating such participation across the military, and the unfortunate fact that many line unit commanders still struggle to see the value in allowing their service members to participate fully. The VFW believes that DOD must fully implement its information-sharing agreement with DOL to ensure that state workforce development agencies would have consistent access to the names of veterans leaving the military and relocating to their areas. When armed with this information, employment counselors could reach out directly to recently-transitioned veterans and speak to them face-to-face to ensure that they fully understand what is available to them locally. Unfortunately, the proposed information sharing agreement was delayed, and only started as a pilot in January of this year. DOL first informed the VFW that it was working to codify the agreement in 2012. It is now 2015. At this point, the VFW believes it is unacceptable that DOD and DOL have yet to implement this concept fully.

Another solution to continue to bolster the post-service availability of TAP so veterans have access is to the information in TAP at the time and place that they need it. Two years ago, DOL worked with its contract TAP facilitators in West Virginia, Georgia and Washington to facilitate 23 workshops as part of the Off-Base Transition Training (OBTT) pilot program, as mandated by the Dignified Burial and Other Veterans' Benefits Improvement Act of 2012. By facilitating large-scale, community-based TAP classes, OBTT serves veterans who otherwise would not have had access to the material, or who could only receive comparable information by meeting one-on-one with employment counselors at an American Jobs Center. Moreover, the program was very cost-effective, costing only $52,052 to administer the entire pilot. Unfortunately, the OBTT pilot expired in January 2015, and DOL will not have information on employment outcomes for participants for another year. The VFW believes that OBTT should be a permanent program, but until we have final data on the OBTT pilot, Congress should pass an extension of the pilot.

Another primary concern for the VFW is the lack of involvement of accredited Veterans Service Organizations (VSO) in the new TAP process. A critical element in the transition process is

ensuring that when service members leave the military they have timely access to their benefits. This includes VA service-connected disability compensation, which not only helps veterans make up for lost earning potential as a result of injuries and illnesses incurred on active duty, but also serves as a gateway to other services like VA health care, Vocational Rehabilitation, adaptive housing, or intensive job placement. The VFW believes that in a joint report to Congress, DOD should include an update on how they are complying with the law that requires commanders to allot access and space for VSOs so they can hold face-to-face meetings with transitioning service members seeking VA- accredited representation.

Recommendation #13: Ensure service members receive financial assistance to cover nutritional needs by providing cost-effective supplemental benefits.

The VFW supports Recommendation 13.

Recommendation #14: Expand Space-Available Travel eligibility to military dependents whose sponsor is deployed for 30 days or more.

The VFW supports Recommendation 14 with an additional recommendation.

The VFW urges Congress to amend title 10, U.S. Code, to add 100 percent service-connected disabled veterans and their eligible dependents to the Space-A flight eligibility list. These 100 percent disabled veterans are issued military identification cards, the DD Form 2765, "Department of Defense/Uniformed Services Identification and Privilege Cards." Their dependents are issued DD Form 1173 identification cards. Both ID cards extend all the same access and privileges as afforded to active-duty military and their dependents—except Space-A travel.

Recommendation #15: Measure how the challenges of military life impacts children's schoolwork by implementing a national military dependent student identifier.

The VFW supports Recommendation 15.

CONCLUSION

Many individuals and organizations have raised questions about the intent of the Military Compensation and Retirement Modernization Commission's recommendations. The common assumption has been that the President and Congress tasked the Commission with promoting the continued reduction of benefits to service members, veterans, and their families. To the contrary, we have found that the Commission has found innovative methods to create new benefits for military beneficiaries without raising costs to the taxpayer by finding efficiencies in the current compensation programs. In fact, the Commission estimates that their proposals would save DOD $31.8 billion during FY 2016-FY 2020 and result in annual steady-state savings of $8.7 billion by FY 2046. If Congress is going to adopt the Commission's recommendations, they will need to decide what to do with the extra savings.

We believe that Congress should resist the urge to use these savings to offset sequestration. Beginning in FY 2016, all Department of Defense (DOD) discretionary budget accounts will automatically be reduced by approximately 10 percent. We know that sequestration drastically reduces the overall effectiveness of our military by producing fewer, less well-trained troops, and equipping them with outdated equipment. However, Congress should not be looking to balance the Defense budget on the backs of those who bear the burden of battle. Before we look to personnel benefits to find savings, Congress must eliminate the Pentagon's budget caps and force DOD to exhaust every other cost savings avenue, such as proper financial auditing, reduce duplicative processes, and increase recuperation of procurement contract overpayments.

The Commission did not address a few unresolved discrepancies in the way we compensate service members and veterans. Before Congress uses the savings from the Commission's recommendations to offset sequestration, we urge Congress to address the following problems with military compensation:

- Provide full concurrent receipt of military retirement pay and VA disability compensation without offset, regardless of the rating percentage;
- Repeal the SBP/DIC offset for current eligible beneficiaries;
- Lower current Reserve Component service members' retirement pay eligibility age by three months for every 90 days served on active duty retroactive to September 11, 2001.

Making these changes is the right thing to do for those who have sacrificed the most for our nation, and will go a long way in convincing veterans and their families that the recommended changes to the military compensation and retirement system are in their best interests. We look forward to working with Congress to ensure our country meets the needs of all service members, veterans, and their families and to properly compensate them.

APPENDIX N—STATEMENT OF THE WARRANT OFFICERS ASSOCIATION

United States Army
Warrant Officers Association
The Quiet Professionals®
462 Herndon Pkwy, Suite 207, Herndon, VA 20170-5235
703-742-7727 800-5-USAWOA Fax 703-742-7728
usawoaed@verizon.net - www.usawoa.net

March 6, 2015

The Honorable John McCain
Chairman,
Senate Armed Services Committee
United States Senate

The Honorable Jack Reed
Ranking Member,
Senate Armed Services Committee
United States Senate

The Honorable Lindsey Graham
Chairman, Personnel Subcommittee
Senate Armed Services Committee
United States Senate

The Honorable Kirsten Gillibrand
Ranking Member, Personnel Subcommittee
Senate Armed Services Committee
United States Senate

Dear Chairmen and Ranking Members:

The United States Army Warrant Officers Association (USAWOA) is the only military service organization thoroughly devoted to the welfare of Army Warrant Officers – serving, former and retired – and their families. The USAWOA is grateful to the Committee and Subcommittee for holding hearings on the recommendations of the Military Compensation Retirement Modernization Commission (MCRMC), and thanks you for the invitation to submit our views regarding them.

The USAWOA originally advocated for the formation of the MCRMC, and has supported its diligent work in presenting extremely thoughtful recommendations for consideration. As we repeatedly reported to our Members, we have profoundly respected the exhaustive efforts of the commission. Having said this, we also predicted that while we would likely find much goodness in many of their recommendations, we would also likely find many areas of concern with others.

The USAWOA has cosigned (and thus endorses) a letter to you, signed by 22 other military and veterans service organizations (MSOs), detailing our conjoined initial observations on the MCRMC's 15 recommendations. In the two additional pages immediately hereunder – in the format you requested – please find separate indication of this (for each recommendation), together with any additional views of the USAWOA. Thereafter, please find a copy of the conjoined MSO observations letter, for convenient reference.

Again, thank you very much for the privilege of sharing our views on this important report, which has the very real possibility of impacting military personnel programs for decades to come. Please do not hesitate to contact me for clarification of USAWOA's position on any issue in the future.

Sincerely,

Jack Du Teil
Executive Director

* ***Professionalism*** * ***Representation*** * ***Recognition*** *

Recommendation 1 – Retirements: The USAWOA endorses and adopts the conjoined MSO observations and concerns. While we would welcome the addition of a more robust Thrift Savings Plan (TSP) benefit for uniformed service personnel – with government matching – we are gravely concerned about the 20% reduction in defined-benefit retirement that this recommendation would exact in exchange. USAWOA is particularly concerned about: the impact on future reserve component retirees; the discontinuing of TSP-matching, beyond 20 years of service; and the impact of this recommendation on retention of key NCO and officer leaders of between 8 and 20 years of service.

Recommendation 2 – Survivor Benefit Plan: The USAWOA cannot support this recommendation, and endorses and adopts the conjoined MSO observations and concerns.

Recommendation 3 – Financial Literacy: The USAWOA generally supports this recommendation, pursuant to the concerns stated in the conjoined MSO response.

Recommendation 4 – Reduction of Reserve Component Statuses from 30 to 6: The USAWOA generally supports this recommendation, pursuant to the concerns stated in the conjoined MSO response. We caution that in-depth research and complete staffing by stakeholders in the National Guards and Reserves be conducted prior to any implementation, to ensure: a.) that such consolidation is fair to reserve component members, gives them the proper credit for their duty, and assures maintenance of current pay and benefits; and b.) that all operational requirements currently supported by the current system are fully met. We also caution that any implementation of such changes be phased-in to mitigate potential unintended second- and third-order effects. Example: Possible invalidation of existing legal agreements between states, currently facilitating rapid cross-state deployment of National Guard troops during natural disasters (such as Hurricane Katrina) – in this case, new agreements might need to be prepped, with updated references to the new language in the law.

Recommendation 5 – Joint Readiness Command: The USAWOA is not supportive of this, and endorses and adopts the conjoined MSO observations and concerns.

Recommendation 6 – Healthcare Recommendation: The USAWOA is not supportive of this, and endorses and adopts the conjoined MSO observations and concerns. Having said this, we see much goodness in investigating implementation limited to Reserve Component members of the uniform services. ***But the USAWOA cannot endorse a plan that will so disadvantage working-age retirees, for the same reasons we fought implementation of the retiree cost of living allowance (COLA) cuts inflicted in the Bipartisan Budget Act of 2013.***

Recommendation 7 – Support for Service Members' Dependents with Special Needs: The USAWOA supports this recommendation, and endorses and adopts the conjoined MSO observations and concerns.

Recommendation 8 – Collaboration between Departments of Defense and Veterans Affairs (VA): The USAWOA generally supports this recommendation, and endorses and adopts the conjoined MSO observations and concerns. USAWOA is particularly supportive of efforts to standardize electronic medical records management across all uniformed services and VA. This would be a tremendous force-multiplier in the effort to reduce VA backlogs of claims. Regardless of past claims to the contrary from the various services, there is absolutely no legitimate functional reason why this cannot be done, and it should be!

Recommendation 9 – Commissaries and Exchanges: The USAWOA believes this recommendation needs further review, and endorses and adopts the conjoined MSO observations and concerns. Among other considerations, it should be evaluated against the FY15 congressionally mandated review of commissaries and exchanges.

Recommendation 10 – Improved Access to Childcare: The USAWOA enthusiastically supports this recommendation, pursuant to the concerns stated in the conjoined MSO response.

Recommendation 11 – Educational Benefits: The USAWOA generally supports this recommendation, pursuant to the concerns stated in the conjoined MSO response. In particular, we emphatically endorse objections noted in it.

Recommendation 12 – Service Member Transition to Civilian Life: The USAWOA generally supports this recommendation, with the two caveats stated in the conjoined MSO response, which highlight educational milestones and accommodations for families.

Recommendation 13 – Financial Assistance to Cover Nutritional Needs: The USAWOA enthusiastically supports this recommendation.

Recommendation 14 – Expanded Space-Available Travel: The USAWOA enthusiastically supports this recommendation.

Recommendation 15 – National Military Dependent Student Identifier: The USAWOA enthusiastically supports this recommendation, presuming this will apply to all uniformed services.

APPENDIX O—LETTER FROM THE CONJOINED MILITARY/VETERANS SERVICE ORGANIZATION

******The Conjoined Military/Veterans Service Organizations' Letter******

March 6, 2015

The Honorable John McCain
Chairman, Committee on Armed Services
United States Senate
Washington, DC 20510

The Honorable Jack Reed
Ranking Member, Committee on Armed Services
United States Senate
Washington, DC 20510

The Honorable Lindsey Graham
Chairman, Personnel Subcommittee
Committee on Armed Services
United States Senate
Washington, DC 20510

The Honorable Kirsten Gillibrand
Ranking Member, Personnel Subcommittee
Committee on Armed Services
United States Senate
Washington, DC 20510

Dear Chairmen and Ranking Members:

The following organizations, a group of uniform services and veterans associations representing current and former service members and their families and survivors, wishes to share our initial views on the 15 recommendations provided by the Military Compensation and Retirement Modernization Commission.

We are grateful to the Committee and the Subcommittee for holding hearings on the commission's report. You will notice that several of the recommendations we collectively support; however, two recommendations represent a significant change to the current retirement and health care benefit structure.

The commission's proposals leave many unanswered questions and the undersigned suggest that changes of this magnitude be seriously analyzed and studied for any second and third order effects that could be harmful to sustaining the all-volunteer force.

Sincerely,

Air Force Sergeants Association
American Veterans
Association of Military Surgeons of the United States
Association of the United States Navy
Gold Star Wives of America
Jewish War Veterans of the United States of America
Military Officers Association of America
National Association for Uniformed Services
Naval Enlisted Reserve Association
The Retired Enlisted Association
United States Army Warrant Officers Association
Air Force Women Officers Associated
Army Aviation Association of America
Association of the United States Army
Fleet Reserve Association
Marine Corps League
Marine Corps Reserve Association
Military Order of the Purple Heart
National Military Family Association
Non Commissioned Officers Association
USCG Chief Petty Officers Association
Chief Warrant Officer and Warrant Officer Association of the United States Coast Guard
Military Chaplains Association of the United States of America

Recommendation 1: Help more Service members save for retirement earlier in their careers, leverage the retention power of traditional Uniformed Services retirement, and give the Services greater flexibility to retain quality people in demanding career fields by implementing a modernized retirement system.

Initial observations: We appreciate the hard work and analysis that went into the MCRMC's report and especially the retirement proposal, one that calls for a significant change to the existing system.

The current military retirement system is financially sustainable—per Department of Defense (DoD) senior leadership testimony before Congress and annual verification by the DoD Board of Actuaries—and careful thought was put into the system decades ago when it was established by Congress.

It has served the nation and the AVF very well through good times, but also and most importantly through the most challenging retention environment including periods of high operational tempo and strong civilian economic opportunity.

One of the main criticisms of the current system is that it provides no retirement credit to the 83% who never make it to 20 years of service. We support providing some degree of retirement credit for those who leave short of a career; however, it should not be done at the expense of those service members who serve twenty years and beyond. We highly recommend Congress continue to conduct a much more thorough analysis and evaluation, given the potential impact this recommendation could have on the retention of the mid-career officers and non-commissioned officers of the All-Volunteer Force.

Initial concerns:

- The recommendation provides a dramatic shift in the military culture by shifting the burden of responsibility and risk for retirement management and security from the employer—the government—on to the individual service member.
- The recommendation provides no government match to the TSP component of the retirement proposal after 20 years—this would act as a huge discouragement to serve beyond 20 YOS when seasoned, professional senior leadership is needed by the services.
- We remain very concerned that the blended retirement system could have an unintended negative effect on the ability of the services to retain sufficient mid-level NCOs and officers to 20 years of service. The combination of having a transportable career device and a reduced 20-year retirement system (a lower pension multiplier and four-fold increase in health care fees for working-age retirees) could provide a much greater draw to leave the service than to stay – especially in good economic times and high stress and operational tempo service members and families have experienced over the past 13 years.
- This recommendation makes a number of major assumptions concerning how an individual will be ensured of success in terms of retirement management and security. First, it assumes that major financial literacy will be done by the Services and second, that government-sponsored financial planners will be available at all locations to provide continued assistance to service members at every stage throughout their careers—both large, expensive and time intensive assumptions that when attempted by companies in the private sector, have fallen well short of success.

- We are concerned over the way the MCRMC demonstrates how a typical service member would realize greater financial benefit from the proposed retirement plan than they would under the current defined benefit plan. We question the assumptions behind the discount rate that the commission uses when it evaluates the future of today's pension benefit.
- The commission in their recommendation used a discount rate of 12.7% when it calculated the future value of the retirement pension of an E-7 under the current system. For an O-5, the commission used a discount rate of 6.4% - having two different discount rates is not actuarially defensible.
    - The commission explains this by stating that they are the result of surveys taken by service members. The figures provided by the commission reflect the perceived value of the benefit rather than an actual value. We recommend Congress review the actual vs. perceived value.
    - If a discount rate is used, we recommend Congress use a discount rate that, according to numerous private sector actuaries, should be approximately 2-3% because the U.S. government is the guarantor.
    - We believe the commission's assumptions greatly undervalue the current pension, no matter the grade at which the service member retires, while overstating the value of the proposed stock-market return.
- Comparisons to the private sector fail to take into consideration the unique conditions of service and the inability to transfer like skill levels back and forth as the private sector does between companies.
    - The Services must grow the skills they need; they cannot hire an Infantry company commander, a platoon sergeant, chief petty officer, or F-22 pilot with 8 to 10 years of experience.
- Additionally, the commission does not clearly address disability retirements; we recommend that the committee review the unintended consequence to a medically disabled service member's benefit as a result of lowering the length of service multiplier from 2.5% to 2.0%. This could reduce, not enhance their net monthly income.
- Finally, we have concerns with how Guard and Reserve retirement would be addressed and our initial review of the continuation pay appears to create some real inequities. These inequities could have a major negative impact on career retention in the reserve components.
- In addition, there are still unanswered questions on how the TSP matching and roll-over to employer's TSP would work for drilling reservists.

Recommendation 2: Provide more options for Service members to protect their pay for their survivors by offering new Survivor Benefit Plan coverage without Dependency and Indemnity Compensation offset.

We cannot support this recommendation.

- We are concerned that this leaves the 60,000 surviving widow/widowers who presently must absorb the offset in the same situation they are now – continuing to have their SBP annuity offset by their DIC payment. We ask Congress to find a budgetary offset to end this inequity.

- Increasing the SBP premium to 11.25 percent would discourage retirees from signing up for the higher coverage unless they were severely disabled and had no other options. Those with severe disabilities may be least able to pay higher premiums in already reduced financial circumstances.
- The SBP annuity and the DIC annuity are paid for two separate purposes. Since the retiree already pays a premium for SBP why should he/she also subsidize the payment of the VA DIC annuity?

Recommendation 3: Promote Service members' financial literacy by implementing a more robust financial and health benefit training program.

We generally support the principles of the proposal; however, we see potential problems with implementation.

Initial concerns:

- Currently some bases may share Personal Financial Managers with other bases, limiting their availability, and "messaging" from leadership already in place for Military Saves Program.
- Any plan to grow a more robust financial and health benefit training program MUST include families.
- Any plan should include education on accessing and using their military benefits to further promote financial stability and should provide greater frequency at key touch points during the military life cycle.
- Financial training is always an important part of military readiness but becomes even more imperative in light of other recommendations of the Commission, such as asking service members to manage their own retirement portfolio and asking families to make good health care program choices.

Recommendation 4: Increase efficiency within the Reserve Component by consolidating 30 Reserve Compenent duty statuses into 6 broader statuses.

We have supported the consolidation of duty statuses for the reserve components for many years, so we support the MCRMC recommendation in general. However, when the statuses are consolidated, we insist that following principles need to be observed.

- Protect all benefits earned by reserve component members.
- All existing operational requirements performed by National Guard and Federal Reserve members in and across state lines must be accommodated.

Recommendation 5: Ensure Service members receive the best possible combat casualty care by creating a joint readiness command, new standards for essential medical capabilities, and innovative tools to attract readiness-related medical cases to military hospitals.

We are generally not supportive of adding another bureaucratic layer onto the existing structure and question the need for this as there are already existing functions with this oversight. One positive would be that an elevated structure could render more oversight and support for Guard and Reserve medical

readiness needs as this is an area which is currently woefully un-supported. Additionally, any serious entertainment of implementing this recommendation would require closer scrutiny and analysis.

Initial observations:

- We have long supported the principle of establishing a Joint Medical Command to ensure inter-service consistency of policy and budget oversight, appropriate requirements for medical staffing, training and procurement efficiencies and more.
- MCRMC proposal has some similarities to that concept, but is much more far-reaching.
- Entails dramatic changes for delivery of beneficiary care whose impact requires significant study to assess potential adverse consequences for beneficiaries.

Initial concerns:

- Joint Command vision does not entail budget authority, but only participation in budget process with service/other players.
- This proposal is trying to fix a non-problem. Statistics from war casualties indicate a system working spectacularly well. These recommendations just add layers of bureaucracy without adding any real value.
- Appears to envision further downsizing of MTF capacity; if so, are MTFs in more remote areas at risk?
- Envisions adjusting insurance reimbursements and/or beneficiary copays as financial "sticks" to drive selected beneficiaries into MTFs rather than civilian facilities for certain procedures.
- Proposed elimination of catchment areas could be positive as long as long-distance travel to MTFs is voluntary.
- We are concerned that DoD could use proposed rate/copay-setting authority to coerce beneficiaries into using distant/inconvenient MTFs by setting stiff copay penalties for non-use (i.e., use of "sticks" vs. incentive "carrots").
- For MTF purposes, effectively subordinates beneficiaries' needs/desires to MTFs; beneficiary becomes a tool for services to maintain readiness ("operating fodder").
- We believe that Congress needs to assess the implications of opening MTFs to non-DoD-eligibles as needed to meet trauma/surgical/other professional requirements.
- Formula for allocation of readiness vs beneficiary benefit (O&M vs MilPers) has always been subject of controversy; DoD not willing to provide data in past on cost of readiness vs beneficiary benefit.
- Since MTFs need more than service member care to meet training needs, this proposal increases the potential to put MTF needs in more direct opposition to dependent/retiree/survivor beneficiary desires.
- Historically, MTFs have wanted older beneficiaries for trauma, surgery, and certain other needs, but has not had capacity to enroll them for routine/specialty care.
- Alternative proposals for the Guard and Reserve could be developed to meet MTF combat-related care needs that would be seen as benefiting rather than coercing non-AD beneficiaries (e.g., partner with insurers to establish Military Medicare HMOs that enroll only DoD eligibles and establish the

local MTF as the HMO's provider for certain surgical and other services...this was once proposed by a former AF/SG).

Recommendation 6: Increase access, choice, and value of health care for active-duty family members, Reserve Component members, and retirees by allowing beneficiaries to choose from a selection of commercial insurance plans offered through a Department of Defense health benefit program.

Generally we do not support wholesale change of this magnitude but conversely cannot accept the current status quo. There are key details which the proposal does not address and many unanswered questions which prohibit agreement on a proposal such as this. We recommend Congress review this proposal and consider the wide range of extra costs that would be incurred by additional studies, implementation costs, and costs which were not documented by the Commission. We recommend that the Guard and Reserve members could be enrolled into existing FEHBP programs with cap's on cost for these members.

Initial observations:

- The Commission's description of problems with TRICARE Prime are on the mark however instead of fixing the TRICARE program the answer is to eliminate it and have beneficiaries pay more for the fix.
- That the proposal becomes one of greater choice for greater cost.
- Many beneficiaries would defer needed medical exams to conserve money – families may also do the same to keep more of the funds in their health savings accounts.
- But the proposed change is an extremely radical one that could have far-reaching implications now and in the future.
- Such a dramatic change in the entire philosophy of delivering military health coverage requires extensive and thorough review to ensure it meets beneficiary needs without changing fundamental benefit value or leading to significant unintended consequences.
- We agree that coverage should be improved for the Guard/Reserve community and access to care should be expanded to maintain continuity but not at an increase in cost.

Initial concerns:

- We oppose funding care for non TFL-eligibles through the MERHC or other health care trust fund
  - This would add significantly more funds to the "mandatory spending" category Congress has sought to reduce.
  - It also would impose major administrative roadblocks to any program enhancements or correcting unforeseen inequities that may prove needed in the future.
- The proposal says the TRICARE Pharmacy program would be retained, but most civilian health plans such as those envisioned to be administered through OPM entail some level of Rx coverage.
  - To the extent the plan selected includes such coverage, it would render the TRICARE pharmacy program (and especially the lower-cost mail-order program) virtually unusable for the beneficiary

- Does the plan envision that the OPM-administered plans for DoD beneficiaries would not include Rx coverage?
- Envisions establishing beneficiary copays in MTFs (We strongly oppose).
- To the extent premiums and copays vary by locality, this would be a dramatic and unwelcome departure from what has been a uniform program, regardless of locality.
- Putting this major military health benefit under the administration of OPM appears to be a significant step toward treating military beneficiaries like federal civilians for health care purposes.
  - Military beneficiaries incur unique and extraordinary sacrifices that are unlike the service conditions of any civilian, and their health benefits have been intended to be significantly better than civilian programs.
- To what extent would this proposal have to be approved by congressional committees, such as Health and Human Services (HHS) that oversee federal civilian/OPM issues? What is the likelihood of agreement/disagreement from that quarter?
- The MTFs are sized to maintain medical readiness and not all possible beneficiaries. The TRICARE network is structured, by design, to flex to handle the readiness and beneficiary need and demand.
- No matter how the system is structured, the basic principle must be to fully optimize the MTFs. No matter how it happens, any system which weakens the position of the MTFs threatens to destroy our capability to adequately support the warfare plans of the CINCs.
- We are concerned that the Commission states overtly that its intent is to raise beneficiary costs as a means of retarding DoD beneficiaries' health care usage, which has exceeded civilian usage.
  - But this ignores that there are many reasons for the usage statistics differential (e.g., military system has not been proactive in providing ways to meet beneficiary needs for such things as off-hours care, or in publicizing those that exist)
- We have never accepted assertions that implementation of TRICARE in the 1990s entailed covering 27% of DoD costs.
  - In our negotiations with DoD in setting payment rates for that initial program, no percentage of costs was ever discussed.
  - We have made numerous requests for the data on how that calculation was made, but it has never been provided by DoD.
  - We also believe there is a significant disconnect between the commission's 5% assertion and what DoD has reported as 8.2% in the FY 2016 budget submission. We highly recommend Congress understand the differences in this calculation.
  - We do not believe beneficiaries' costs should be based on DoD costs, because that forces beneficiaries to subsidize DoD inefficiencies and oversight failures.
- We believe the envisioned 20% premium cost share for retirees is substantially too high, regardless of any phase-in period, and that such a standard devalues the in-kind premiums contributed through decades of arduous service and sacrifice that were acknowledged in previous cost-share setting.
- Fundamental issue that needs to be addressed: "what is the premium value of decades of service and sacrifice in uniform?"
  - This needs to be formally recognized in the cost-sharing determination.

  - In the past, this has been implicit: zero cash premium for TRICARE Standard, and a modest cash premium (a minor fraction of FEHBP premiums) and very low copays in TRICARE Prime.
  - Commission confirms there should still be zero cash premium for TFL supplement to Medicare.
  - Whatever military people are asked to pay in any new plan should be consistent with that history of premium-setting.
  - Service in recent decades of continuous war has to be at least as valuable as service rendered in previous decades.
- There are other significant inequities in the proposed premiums, such as the proposal to set former spouses' cost share (5%) at one-fourth of the retired member's (20% ultimately).
- The proposal does not address the unique circumstances of severely disabled service members once they are retired from service and survivors.
- The proposal does not address what would be available to retired members/families/survivors who reside overseas and currently have access to TRICARE.
- The proposal to set annual premiums and health care allowance levels at the median expense experienced by beneficiaries in the previous year could have the potential to depress rates over time based on the depressive effect of those who chose for budgetary or other reasons to elect lower-tier coverage.
- The proposal would set the health care allowance at the amount necessary to cover the average plan in each locality...but isn't military-provided coverage, by definition, supposed to be significantly better than average?
- No mention is made of what level of catastrophic cap would be placed on annual out-of-pocket healthcare expenses for active duty and retired members/families.
- How did the Commission develop/calculate data on beneficiaries' perceived value of program changes (increased access, etc.)?
- To the extent that beneficiaries would be shifted to private insurance plans and right-sizing of MTFs, the assumption seems to be that some level of care would be shifted to civilian providers. But there already is considerable concern about the adequacy of civilian capacity in coming years, especially with many doctors retiring and millions of newly covered ACA beneficiaries competing for access.
- While we share the Commission's concern about problems experienced with TRICARE Prime, the main question is whether it takes such a radical change to address those problems.
- In the end, the main beneficiary concerns come down to (a) access to quality care, (b) cost to the beneficiary, and (c) preservation of DoD's unique employer responsibility to provide its career service members and families a top-tier health program to help incentivize decades of service in the face of extraordinary (including wartime) hardships.

Recommendation 7: Improve support for Service members' dependents with special needs by aligning services offered under the Extended Care Health Option to those of state Medicaid waiver programs.

We support the Commission proposal. We applaud and support the Commission for addressing issues experienced by military families with special needs. We agree with the recommendation and the intent to improve support for these beneficiaries by aligning services offered under the Extended Care Health

Option (ECHO program) to those of state Medicare waiver programs. We believe that Guard and Reserve families are particularly vulnerable during transitional periods and should have an extension of support. It is imperative that the benefit must include members of all seven of the uniformed services.

Initial concerns – The critical benefit must capture members of all seven of the uniformed services and we are concerned that Guard and Reserve families may have a difficult time transitioning in and out of the ECHO program. Finally, it is important to consider a transitional benefit (1-3 years) for these vulnerable families as they leave active duty service. We believe it will be important to examine a transitional benefit for those who have depended on this program and will find themselves at the bottom of the state Medicaid lists upon separation/retirement.

Recommendation 8: Improve collaboration between the Departments of Defense and Veterans Affairs by enforcing coordination on electronic medical records, a uniform formulary for transitioning Service members, common services, and reimbursements.

We support a dramatic improvement in the collaboration between the DoD and VA and there exist some excellent examples, such as the joint DoD/VA health care facility in North Chicago. We have for many years advocated for legislative authority to grant the existing Joint Executive Committee additional authority and responsibility to enforce collaboration. Many of the issues impeding progress range from a common electronic medical record to joint facility and acquisition planning can be accomplished in a transparent manner. We note that based on theory this should work, but is skeptical that this will provide a true solution to the historic problems of VA/DoD collaboration.

Initial concerns:

- From our perspective, a single Uniform Formulary would be beneficial only if the formulary is larger, e.g., adopt the DoD formulary in order to make sure service members who transition from DoD to VA can maintain their prescription meds and to make sure other veterans have access to whatever medications they may need.
- How do we ensure access to National Guard medical records which are the property of the respective states and are extremely difficult to obtain?
- If the Reserve Component is transitioned to TRICARE Choice, then how will DoD/VA interface with private providers to make sure military records are up-to-date and accurate?
- Would contractors like Logistics Health Incorporated (LHI) continue to be the clearinghouse between DoD and private providers?

Recommendation 9: Protect both access to and savings at Department of Defense commissaries and exchanges by consolidating these activities into a single defense resale organization.

We would not support any proposal that diminishes the commissary and exchange benefits. Further review is necessary on how these changes would secure these benefits at the current level i.e. average savings for military families of 30 % and contributions of exchange profits to the MWR programs.

We are grateful that the Commission's thorough review substantiates the value of commissary and exchange benefits, and recognizes that families really do rely on the savings they provide. We appreciate the Commission's focus on finding efficiencies and cost savings to sustain commissary and exchange benefits. We support improving the viability and stability of these systems in order to protect these benefits. We have opposed consolidation because there has been no proposal that preserved the level of savings, revenue stream for MWR, and jobs for military families provided by the commissary and exchanges. Any proposal to change the existing structure must secure those benefits at their current levels. This proposal leaves us unconvinced that these benefits will be secure. We stress there should be no changes in law that diminish the commissary and exchange benefits, and no budget reductions until further reviews are completed.

Initial concerns:

- The Commission's recommendations should be evaluated against the FY15 congressionally mandated review of commissary and exchange systems.
- The proposed recommendations need to be thoroughly vetted to safeguard these cherished benefits, which are used by 90 percent of the military community, consistently rank as one of their most valued earned benefits, and provide much needed savings and employment for military families and veterans.
- Previous attempts to combine operations for just the Exchange systems have encountered huge roadblocks due to logistical challenges and Service objections. What are the details for the proposal to combine the Exchange and Commissary operations that would overcome previous roadblocks?

Recommendation 10: Improve access to child care on military installations by ensuring the Department of Defense has the information and budgeting tools to provide child care within 90 days of need.

We support the Commission's proposal and are grateful for recognizing the importance of child care for military families and appreciate that there will be greater visibility on waiting lists and the scope of this issue; however, we have some concerns and recommendations.

Initial concerns:

- DoD has to continue to pursue innovative solutions to meet this need beyond just building more brick and mortar CDCs. Other issues for consideration when addressing the challenges of finding and securing affordable childcare include: wait list prioritization and realignment of existing programs to meet the shift back to a garrison based force (24 hour and weekend care for duty, 7 day a week operation, extended day options).
- DoD should use this opportunity for collecting data to find a way forward that determines the prioritization of military families on the waiting list.

Recommendation 11: Safeguard education benefits for Service members by reducing redundancy and ensuring the fiscal sustainability of education programs.

We generally support much of the recommendation, including closing the Reserve Education Assistance Program and transitioning eligible reservists to the Post 9/11 GI Bill, however we have some concerns and recommendations.

Initial concerns:

- DoD should refund the entire $1,200 to all service members who paid into the MGIB but were eligible for Post 9/11 benefits.
- We strongly object to the MCRMC recommendation to *end housing stipend payments to dependents using transferred education benefits* after July 1, 2017 on contracts in force up until that date. DoD should not break faith with service families on existing transfer agreements in place as of 1 July 2017. Specifically, where service agreements have already been signed and/or fulfilled for transferability, BAH for dependents must be honored, and service members with such contracts should not have to meet a new threshold of service. These individuals should not have to meet a new threshold of ten years of service plus an additional commitment of two years. All aspects of this contract should be grandfathered for those who have already fulfilled the commitment including the housing stipend.
- We object to eliminating unemployment compensation for anyone receiving housing stipends under the Post-9/11 GI Bill. We should not treat service members differently from all other Americans when it comes to eligibility for unemployment insurance.
- We recommend DoD review its policy / procedures and set transferability service commitments to support career force retention. We do not support the specific recommendation to raise the service commitment by 2 years to 12 years total service (excluding obligated periods of service incurred by other means such as Service Academy or ROTC 'payback' time).
- The MCRMC did not offer any recommendation re the MGIB-SELRES. Originally, the MGIB – SELRES program paid 47 – 48 cents to the dollar compared to rates for the MGIB – Active Duty for the first 14 years of its existence (1985 – 1999). Thereafter, the Services and Reserve Components allowed the program to dwindle to a current ratio of 21 cents to the dollar compared to the MGIB – AD. The likely reason for the steep decline in the benefit is that the program competes for funding directly against annual discretionary reserve pay and benefit accounts. The MGIB – AD and the Post 9/11 GI Bill are mandatory funding programs under Title 38. We have long maintained that the MGIB – SELRES should be re-codified as a sub-chapter in Chapter 33, 38 USC as an initial entry benefit for reservists. As a Title 10 discretionary program DoD has refused to sustain it as recruitment tool. In line with the MCRMC recommendation on having a single GI Bill educational platform, the MGIB – SELRES belongs in Title 38.
- We support the collection of information related to, but not limited to, graduation rates, course competition rates, course dropout rates, course failure rates, certificates and degrees being pursued, and employment rates after graduation, and include that information in an annual report to the Congress. Collecting and tracking these data should be the joint responsibility of the Dept. of Veterans Affairs and Dept. of Education in coordination with DoD.
- Reference Military Tuition Assistance (TA) Service policy, we believe that TA should be used by the Services as they see fit for a variety of force management purposes: as an incentive for continued

service; professional development; to obtain civilian credentials, prepare service members for more competitive assignments and for related purposes.

- We are not supportive of a "sense of Congress resolution" affirming that DoD and the Military Services may approve or deny requests to transfer post-9/11 GI Bill benefits in such a way that encourages retention of individuals in the Military Services, and recommending that they be more selective in granting transferability of Post-9/11 GI Bill benefits. Such as resolution is unnecessary as Congress granted DoD explicit statutory authority to manage service commitment policy under the Post-9/11 GI Bill transfer program established in Chapter 33, 38 USC.

Recommendation 12: Better prepare Service members for transition to civilian life by expanding education and granting states more flexibility to administer the Jobs for Veterans State Grants Program.

We generally support the recommendation with two caveats: Mandatory participation in Transition GPS and similar programs should occur at key milestones throughout a service member's career (i.e., upon second enlistment, at 10 year mark, within 2 years of retirement, not just a one-time event. Also, additional accommodations should be made for families, highlighting existing resources and tools to help the entire family have a successful transition.

Recommendation 13: Ensure Service members receive financial assistance to cover nutritional needs by providing them cost-effective supplemental benefits.

We support the recommendation. This proposal will help more families in need to access nutritional and financial support and helps shine light on SNAP program and WIC overseas – essential programs for military families, which rely on a viable commissary benefit. Financial education is key and further data collection will be needed.

Recommendation 14: Expand Space-Available travel to more dependents of Service members by allowing travel by dependents of Service members deployed for 30 days or more.

We support the recommendation.

Recommendation 15: Measure how the challenges of military life affect children's school work by implementing a national military dependent student identifier.

We support the recommendation. One item that remains unclear is whether or not information will be collected on children of AD parents/guardians of all of the Uniformed Services or just the Armed Forces. We support inclusion of all Uniformed Services.

THE RETIREMENT AND COMPENSATION PROPOSALS OF THE MILITARY COMPENSATION AND RETIREMENT MODERNIZATION COMMISSION

WEDNESDAY, FEBRUARY 11, 2015

U.S. SENATE,
SUBCOMMITTEE ON PERSONNEL,
COMMITTEE ON ARMED SERVICES,
Washington, DC.

The subcommittee met, pursuant to notice, at 3:03 p.m. in room SD–G50, Dirksen Senate Office Building, Senator Lindsey Graham (chairman of the subcommittee) presiding.

Committee members present: Senators Graham, Tillis, Gillibrand, and King.

OPENING STATEMENT OF SENATOR LINDSEY GRAHAM, CHAIRMAN

Senator GRAHAM. Thank you, all. The subcommittee will come to order.

We have our ranking member, and what I thought I would do is just basically let you introduce yourselves, so I don't destroy your names, starting with the chairman.

Mr. MALDON. Alphonso Maldon, chairman.

Mr. HIGGINS. Sir, Mike Higgins.

General CHIARELLI. Pete Chiarelli.

Admiral GIAMBASTIANI. Ed Giambastiani.

Mr. ZAKHEIM. Dov Zakheim.

Senator PRESSLER. Larry Pressler.

Mr. BUYER. Steve Buyer.

Senator GRAHAM. Where is he? There you are. He is a House Member, and he's sitting in the audience. [Laughter.]

So the testimony you gave before the full committee was compelling. I think you have been to the House. Is that correct?

Mr. MALDON. That is correct, Mr. Chairman.

Senator GRAHAM. Did you all survive?

Mr. MALDON. We are intact.

Senator GRAHAM. I heard it went well.

Mr. MALDON. Thank you.

Senator GRAHAM. So, rather than doing an opening statement, I will turn it over now to our ranking member. I would like to ask some questions, and I appreciate your work product. It is an extraordinary amount of time, talented people coming up with I think

pretty innovative solutions that could probably always be made better.

So without further ado, our ranking member, Senator Gillibrand.

STATEMENT OF SENATOR KIRSTEN E. GILLIBRAND

Senator GILLIBRAND. Thank you, Senator Graham. I really appreciate this committee and your chairmanship.

I want to note that this committee works very well together, in the past we have, and I know we will continue to work well together in a bipartisan fashion.

I want to thank all the witnesses for your hard work. I appreciate the testimony you gave to the full committee.

Many members of the subcommittee have expressed reservations about the Department of Defense's (DOD) proposals to control the growth of personnel costs, which we received while waiting for the findings of this commission and which were requested by the administration again this year. We have been concerned that the efforts were piecemeal rather than holistic, and that their short-term and long-term effects on servicemembers and their families were unclear. We were most concerned about the consequences of those recommendations on what we consider the most vulnerable military population, our most junior servicemembers.

I am very grateful that you have looked at these issues in a holistic manner and really look to have some long-term changes that can make a difference. I am very grateful for the new ideas that have been put forward, and I am very eager to talk further about the assumptions that underpin your recommendations.

Thank you, Senator Graham, for hosting the hearing.

Senator GRAHAM. That was excellent.

Mr. Chairman, why don't you lead us off?

STATEMENT OF HON. DOV S. ZAKHEIM, COMMISSIONER, MILITARY COMPENSATION AND RETIREMENT MODERNIZATION COMMISSION; ACCOMPANIED BY COMMISSIONERS HON. LARRY L. PRESSLER, HON. DOV S. ZAKHEIM, MICHAEL R. HIGGINS, GEN PETER W. CHIARELLI, USA (RET.), AND ADM EDMUND P. GIAMBASTIANI, JR., USN (RET.)

Mr. MALDON. Mr. Chairman, thank you very much, and Ranking Member Gillibrand, distinguished members of the subcommittee.

My fellow commissioners and I are honored to be back here in front of you today. As a commission, we stand unanimous in our beliefs that our recommendations strengthen the foundation of the All-Volunteer Force. It ensures our national security and honors those who serve and the families who support them, not only today but into the future.

Our recommendations maintain or increase the overall value of compensation and benefits for servicemembers and their families, and provide needed flexibility for service personnel managers to design and manage a balanced force.

Our blended retirement plan expands benefits from 17 percent to 75 percent of servicemembers while maintaining the Services' current profile. It provides flexibility for servicemembers and the Services while protecting or improving the assets of servicemembers who retire at 20 years of service.

These findings are based on reasonable and conservative estimates, including Thrift Savings Plan (TSP) investment returns of 7.3 percent and retired pay cost-of-living adjustments of 2.3 percent. To maintain current force profiles, TSP contributions were not recommended beyond 20 years of service by this commission. However, the consideration of matching contributions that continues beyond the 20 years of service may be an interest that the committee wishes to explore.

Our recommendations promote essential high-level focus on readiness through a new joint readiness command that can serve as a strong advocate for readiness funding and skilled maintenance standards. They expand choice, access, quality, and value of health care by offering family members, Reserve component members, and retirees a broad choice of insurance plans that are more flexible and efficient than the current TRICARE system.

They maintain savings on groceries and other essential goods, while providing the cost-effectiveness of DOD commissaries and exchanges. Our recommendations also save more than $12 billion annually after full implementation without cutting overall servicemember benefits.

Our recommendations align compensations and the preferences of servicemembers, which were partially measured through the more than 155,000 survey responses we received. Our survey methodology, which was new to the military community, captured preferences for alternative benefit levels. Its analytical tools then enabled for the first time direct comparison between the values that servicemembers place on varying compensation and benefits packages.

The survey validates the many comments we received from servicemembers and their families at the 55 installations that we visited.

Our recommendation, Mr. Chairman, incorporates a substantial consideration of potential second- and third-order effects, which are reflected in our implementation timelines. Advancing these implementation timelines due to budget constraints may lead to unanticipated cost implementation challenges, or even failed modernization efforts. An example may be accelerating the multi-year backend operational efficiencies of our commissaries and exchange recommendations.

In closing, my fellow commissioners and I again thank you for the opportunity to testify before you today, and we are pleased to respond to your questions. Thank you.

[The prepared joint statement of Mr. Maldon, Senator Pressler, Mr. Buyer, Mr. Zakheim, Mr. Higgins, General Chiarelli, Admiral Giambastiani, Mr. Kerrey, and Mr. Carney follows:]

PREPARED STATEMENT BY THE MILITARY COMPENSATION AND RETIREMENT MODERNIZATION COMMISSION

Statement of: Hon Alphonso Maldon, Jr., Chairman; Hon. Larry L. Pressler; Hon Stephen E. Buyer; Hon. Dov S. Zakheim; Mr. Michael R. Higgins; GEN Peter W. Chiarelli, USA (Ret.); ADM Edmund P. Giambastiani, Jr., USN (Ret.); Hon. J. Robert Kerrey; and Hon. Christopher P. Carney

Chairman Graham, Ranking Member Gillibrand, distinguished members of the subcommittee: My fellow commissioners and I are honored to be here, and we thank you for the opportunity to testify today. We also wish to thank you for your support of the Commission throughout the last 18 months and for your unwavering commit-

ment to and leadership in the protection of servicemembers' compensation and benefits.

As a Commission, we stand unanimous in our belief that the recommendations offered in this report strengthen the foundation of the All-Volunteer Force, ensure our national security, and truly honor those who serve—and the families who support them—now and in the future. Our recommendations represent a holistic package of reforms that do not simply adjust levels of benefits, but modernize the structure of compensation programs for servicemembers. These recommendations sustain the All-Volunteer Force by maintaining or increasing the overall value of compensation and benefits for servicemembers and their families, and they provide needed options for Service personnel managers to design and manage a balanced force.

We would first like to address the concern that an all-male Commission does not have sufficient diversity to make recommendations on military compensation. As stated previously, the members of the Commission were appointed and had no input on the composition of the Commission. Nonetheless, the Commissioners immediately recognized the need to supplement our experience through selection of our senior staff. Our General Counsel and two of our three portfolio leads are women. One is a retired two-star admiral, one is a retired Lieutenant Colonel, and another is the spouse of a retired Army E–8, with exceptional family members. Beyond our senior staff, many of our diverse Commission staff members are current or former representatives of most key military and family demographics and are current or former beneficiaries of many of the very programs we explored. This internal diversity of insight and personal experience was deeply appreciated and, indeed, essential to our consideration of all relevant issues.

RETIREMENT

The Commissioners recognize that an appropriate and truly beneficial retirement system is fundamental to keeping faith with our Nation's heroes. Currently, only 17 percent of enlisted members and 49 percent of officers earn a military retirement. The Commission's blended retirement plan recommendation expands benefits to 75 percent of servicemembers, and protects recruiting and retention to maintain the Services' current force profiles. It also provides more flexibility for servicemembers, as well as for the Services that must field a balanced force. The Commission's recommendation also protects, and even improves, the assets of servicemembers who retire at 20 years of service (YOS), based on reasonable and conservative estimates.

For example, the Commission's model assumes that servicemembers contribute only 3 percent of their basic pay to Thrift Savings Plan (TSP), even though 75 percent of participants in the Federal Employees Retirement System contribute 5 percent or more of their pay to maximize government matching contributions. It assumes investment returns of 7.3 percent, consistent with TSP returns since 1989 and lower than the average rate of return estimated by State pension funds. It assumes 2.3 percent annual retired pay cost-of-living adjustments, consistent with Department of Defense (DOD) actuarial assumptions. It further relies on discount rate assumptions calculated by our contractor support based on servicemember behaviors. To maintain current force profiles, TSP contributions were not recommended beyond 20 YOS; however, the consideration of matching contributions that continue beyond 20 YOS may be an area the committee wishes to explore.

Key features of the blended retirement plan include the following:

- Grandfather retired pay for current servicemembers and retirees, while allowing servicemembers to opt in to the new blended retirement plan.
- Maintain the majority of the current defined benefit.
    - Vesting at 20 YOS for standard retirement.
    - Defined benefit multiplier of 2.0 (vs. the current 2.5 percent) to maintain 80 percent of the current defined benefit.
- Institute a defined contribution plan for all servicemembers through the Thrift Savings Plan.
    - Automatic enrollment of servicemembers to contribute 3 percent of basic pay.
    - Automatic Government contributions of 1 percent of servicemembers' basic pay.
    - Government matching of servicemember contributions of up to 5 percent of basic pay from beginning of 3 YOS to 20 YOS.
    - Vesting at beginning of 3 YOS (2 years and 1 day).
    - Continuation pay at 12 YOS to provide mid-career retention incentives.

- "Basic continuation pay" of 2.5 times monthly basic pay for active-duty servicemembers (0.5 of active-duty pay for Reserve component (RC) members).
- Additional continuation pay from Services as needed to maintain desired force profiles.

- Provide servicemembers more choice in how to structure defined benefit payments.
  - Choice to receive all or part of pre-Social Security age defined benefit annuities as lump-sum payments.
  - Full annuities resume at full Social Security receipt age to ensure steady income later in life.
- Provide Services additional career field flexibility.
  - Authority to propose adjustments to YOS to vest for defined benefit annuity for individual career fields.
  - One-year waiting period after YOS adjustment is proposed to Congress.
  - Enables differing force profiles to resolve long-term manpower challenges.

JOINT READINESS

The primary goal of the Commission's recommendations is to maintain the All-Volunteer Force. A critical element of this goal is a focus on sustaining or improving joint readiness. There are challenges to maintaining joint readiness capabilities during peacetime. For example, currently high levels of medical readiness could be enhanced if Military Treatment Facilities (MTFs) had access to a different mix of cases, yet DOD has limited means to affect MTF workload or access to trauma-care cases. The recommended Joint Readiness Command would provide essential high-level focus on readiness for the next conflict and provide a strong advocate to ensure appropriate readiness funding. Key elements of the Commission's recommendation include the following:

- Establish a Joint Readiness Command (JRC).
  - Functional unified command led by a four-star General/Flag Officer.
  - Includes a subordinate joint medical function.
  - Required structure and personnel may be realigned from current Joint Staff functions.
  - Participates in annual planning, programming, budgeting, and execution process.
- Establish a Joint Staff Medical Readiness Directorate.
  - Led by a three-star military medical officer.
  - Current Joint Force Surgeon billet transitions to assume the increased authorities.
- Establish statutory requirement for DOD to maintain Essential Medical Capabilities (EMCs).
  - Limited number of critical medical capabilities that must be retained within the military.
  - Secretary of Defense approves, establishes policies related to, and reports to Congress annually on EMCs.
  - JRC identifies EMCs; establishes joint readiness requirements consistent with EMCs; monitors and reports on Services' adherence to EMC policies and standards; and monitors allocation of medical personnel to ensure maintenance of EMCs.
- Protect and improve transparency of medical programs funding.
  - Active component (AC) family, retiree, and RC health care should be funded from the Services' Military Personnel accounts.
  - Medicare-Eligible Retiree Health Care Fund should be expanded to cover health-care and pharmacy for non-Medicare-eligible retirees.
  - New trust fund for health care expenditures appropriated in the current year.
  - MTFs funded through a revolving fund using reimbursements for care delivered.
  - MTF operations that exceed reimbursement for care delivered to be funded from Services' operations and maintenance accounts as cost of readiness.

HEALTH BENEFITS

The health benefit is essential for nearly all military constituencies. The current TRICARE program is beset by several structural problems that hinder its ability to

provide the best health benefit to AC families, RC members, or retirees. It has weak health care networks because it reimburses providers at Medicare rates or lower. It limits access to care with a frustrating referral process. It has challenges adopting medical advancements or modern health care management practices in a timely manner. The Commission's recommendations expand choice, access, quality, and value of the health care benefit. Key features include the following:

- Continue to provide active-duty servicemember health care through their units or MTFs to ensure Services can maintain control of medical readiness of the Force.
- Retain current eligibility for care at MTFs, pharmacy benefit, dental benefit, and TRICARE For Life for all beneficiaries.
- Establish a new DOD health program to offer a selection of commercial insurance plans.
    - Beneficiaries include active-duty families, RC members and families, non-Medicare-eligible retirees and families, survivors and certain former spouses.
    - AC families receive a new Basic Allowance for Health Care (BAHC) to fund insurance premiums and expected out-of-pocket costs.
        - BAHC based on the costs of median plans available in the family's location, plus average out-of-pocket costs.
        - Part of BAHC used to directly transfer the premium for the plan the family has selected to the respective insurance carrier.
        - Remainder of BAHC available to AC families to pay for copayments, deductibles, and coinsurance.
        - Establish a program to assist AC families that struggle with high-cost chronic condition(s) until they reach catastrophic cap of their selected insurance plan.
    - RC members can purchase a plan from the DOD program, at varying cost shares.
        - Reduce cost share for Selected Reserves to 25 percent to encourage RC health and dental readiness and streamline mobilization of RC personnel.
        - When mobilized, RC members receive BAHC for dependents; select a DOD plan or apply BAHC to current (civilian) plan.
    - Non-Medicare-eligible retirees' cost contributions remain lower than the average Federal civilian employee cost shares, but increase 1 percent annually over 15 years.
    - Leveraging its experience, Office of Personnel Management administers the program with DOD input and funding.
- Institute a program of financial education and health benefits counseling.

SURVEY

In an effort to gather input from key stakeholder groups, the Commission surveyed current and former servicemembers' preferences for possible changes to military compensation. This survey was designed to be statistically representative of key Active, Reserve, and retired subgroups. Some important aspects of this survey include the following:

- More than 155,000 current and former servicemembers completed the survey.
- Results are statistically representative the overall populations and key substrata (95 percent confidence interval).
- Unlike other military surveys that measure satisfaction with current benefits and other aspects of service, the Commission's survey explored servicemember preferences for alternatives to their compensation.
- Survey participants manipulated sliders (scaled 0 to 100) on a set of web-enabled interactive screens to express their preferences for alternative levels of a benefit's feature (e.g., preferences for alternative TSP contributions matched by DOD).
- Preference scores were standardized into measures of relative importance across all benefit features (24 items in the Active Force survey) to enable comparisons and rank ordering of benefit features.
- The system's analytical tools also calculated a measure of perceived value which identified how much of a basic pay raise would be required to match the perceived worth servicemembers assigned to alterative levels of a benefit feature (such as alternative TSP percent's matched by DOD).

• The survey analysis tools also calculated aggregate preference measures for alternative configurations of compensation (including retirement, health care, and quality of life benefit changes), providing insight into how compensation changes could alter servicemember preferences for an overall pay and benefits package.
• Analysis of the survey results revealed considerable support across key servicemember groups for the Commission's modernization recommendations.
• The survey results underscore the Commission's position that efforts to modernize military compensation must be undertaken in an integrated, holistic manner.
• The Commission considered the insights gained from this survey valuable, yet it was just one of several sources of data and analysis available to support its deliberations.
• In addition to the material on the survey included in the Commission's Final Report, a separate report on the survey, along with extensive data files on the results, are available on the Commission's web site (MCRMC.gov).

We offer one additional note as you review and contemplate these and the full complement of our recommendations. Our recommendations look beyond the immediate and incorporate a substantial consideration of potential second- and third-order effects. The implementation timelines in our report are a direct result of these considerations. We ask, therefore, that the members of the Subcommittee work to ensure the most effective possible implementation of any enacted recommendations.

For example, our recommendation related to DOD commissaries and exchanges has a multiyear implementation timeline. The Commissioners are concerned that DOD budget constraints may create pressure to accelerate the backend operational efficiencies recommended in our report. An inappropriate acceleration, however, may lead to unanticipated costs, implementation challenges, or even failed consolidation of the military resale system. We ask that you give such concerns your full consideration as you move forward in your review and implementation of any recommendations.

In closing, my fellow Commissioners and I again thank you for the opportunity to testify here today. It has been our honor and privilege to serve American servicemembers and their families as we have assessed the current compensation and retirement programs, deliberated the best paths to modernization, and offered our recommendations. We are confident that our recommendations will indeed serve our servicemembers in a positive, profound, and lasting way. We are pleased to answer any questions you have.

Senator GRAHAM. Thank you all very much. I will start off and try to be very brief.

When it comes to retirement reforms, is it fair to say that if you are in the Service today and anywhere in the near future, you are going to be grandfathered? If you like the system you have today, you can keep it?

Mr. MALDON. That is correct, Mr. Chairman.

Senator GRAHAM. So no one is being required to give up the current system?

Mr. MALDON. They are not required to give up the current system. They can in fact opt into the new system, if in fact those recommendations are adopted, Mr. Chairman.

Senator GRAHAM. They have to opt in. If they do nothing, they stay in the current system. Is that correct?

Mr. MALDON. That is correct.

Senator GRAHAM. When it comes to percent of Active Duty servicemembers who prefer the current or proposed compensation system, if that chart is remotely right, 80 percent prefer the new proposed system when they are told how to compare the two?

Mr. MALDON. That is correct, Mr. Chairman.

Senator GRAHAM. How sure of that result are you?

Mr. MALDON. Mr. Chairman, we are about as sure as we can be, based on the data, just looking at the data, analyzing the data.

We actually used the survey results to validate the comments that we heard from our hearings that we had, town hall meetings, those sensing sessions. All of those conversations and discussions that we had with the servicemembers and their families and the Reserve component members and retirees, they were validated by the survey results.

Senator GRAHAM. Every retiree, they are going to keep what they have, right?

Mr. MALDON. Let me make sure I understand your question again, Mr. Chairman?

Senator GRAHAM. People who are currently retired, who have already done their time, they are not affected by this?

Mr. MALDON. They are not affected by this.

Senator GRAHAM. So if anybody calls you up on the phone and says you need to get in this fight because they are going to take your retirement away from you or change it, that is not accurate?

Mr. MALDON. The only thing that is going to change is the health care piece of it.

Senator GRAHAM. That is why I am talking about retirement.

Mr. MALDON. Yes.

Senator GRAHAM. We will get to that later.

Mr. MALDON. Okay.

Senator GRAHAM. Talking about retirement, I want to make sure that everybody understands what we are doing.

Mr. MALDON. That is correct.

Senator GRAHAM. If you have earned your retirement, if you have your retirement, you can keep your retirement.

Mr. MALDON. That is correct, Mr. Chairman. It is grandfathered.

Senator GRAHAM. If you are on Active Duty today, nobody is making you change. But if you want to change, you can.

Mr. MALDON. That is correct.

Senator GRAHAM. Now, if those numbers hold, I will have to ask myself why would I stop a choice that 80 percent seem to want? If those numbers hold, I will have a conversation with myself, and I think I know how that will end.

That is an incredible work product, to have 80 percent willing to accept the new idea. That is just fantastic, if those numbers are accurate.

Health care, the current health care system, TRICARE, do you agree that it is sort of, in terms of choice and provider participation, dying on the vine?

Mr. MALDON. Mr. Chairman, I would say that the current system, the current TRICARE system, in my opinion, has certainly lost its usefulness. It is not as effective as it was at the time that it was established and served a purpose, in fact, in some good ways for a number of years. But the time has come that I believe it has, certainly, outlived its usefulness.

Senator GRAHAM. Well, do you agree with me that the reason there are fewer providers in the TRICARE network is that we are paying below Medicare reimbursement rates?

Mr. MALDON. I absolutely believe that, Mr. Chairman.

Senator GRAHAM. I have never run a hospital, and I am not a doctor. But I would be reluctant to take on a patient population

that is paying less than Medicare. So if that is true—is that true? TRICARE actually pays less than Medicare to the provider?

Mr. MALDON. TRICARE pays at the reimbursement rate or less than that rate.

Senator GRAHAM. Okay, the best is Medicare and, many times, it's less.

Mr. MALDON. That is correct.

Senator GRAHAM. Well, if that is true, then our military members and their families and our retirees are going to have less choice because that is an unsustainable system. Your goal was to replace that system with something that would give you more choices in health care. Is that correct?

Mr. MALDON. Yes, Mr. Chairman. It was to get more choices. It was to expand the network. Tt was to actually give better access to health care.

Senator GRAHAM. Let's keep it really simple, too. Under the new plan, doctors and hospitals will get paid more. They will have a higher reimbursement rate, potentially.

Mr. MALDON. I believe that is correct. That was the intention, yes.

Senator GRAHAM. Okay. The rate of reimbursement for the Federal employee health care system, is that generally higher than TRICARE for the providers?

Mr. MALDON. That is correct, Mr. Chairman.

Senator GRAHAM. So I can see why more doctors and hospitals would want to participate in TRICARE Choice, because they have a chance of getting higher reimbursement. Under TRICARE Choice, the member and their families will have more choices than they do today under TRICARE. Is that correct?

Mr. MALDON. That is correct, Mr. Chairman.

Senator GRAHAM. The belief is that they will have more options and higher quality. Is that correct?

Mr. MALDON. That is correct.

Senator GRAHAM. That eventually the 5 percent cost share that is currently being appropriated or taken from the population is insufficient to maintain the system over time. Five percent of the money to pay for TRICARE comes from the patient population. Is that correct?

Mr. MALDON. Yes, Mr. Chairman.

Senator GRAHAM. I don't know of any system in the world that 5 percent is the number, so we are going to have to adjust that number.

The goal for me is, if we are going to adjust that number, that you get more for your money, that if we are going to ask you to pay more, you get more. I am not going to ask you to pay more and get less. Is that the general idea of health care?

Mr. MALDON. That is absolutely the general idea.

Mr. Chairman, let me add that as we had conversations with the military service organizations and the veterans service organizations, certainly from the military service organizations, that was one of their main concerns, that if they had to pay more, that they would be able to get more in return. I believe we have done that.

Senator GRAHAM. I promise them that you are not going to pay more and get less, and to the Guard and Reserve. You are going to get a better deal.

Senator Gillibrand?

Senator GILLIBRAND. Thank you, Mr. Chairman, for those great questions.

So to focus again on retirement, I just wanted to get some detail for Guard and Reserve. Guard and Reserve are crucial tools for retention for troops, especially as we drawdown. But your recommendations about government contributions to TSP and bonuses favor the Active component. Did you assess the role of the Reserve component in retention when looking at these recommendations?

Mr. MALDON. We did, indeed, assess that, Ranking Member Gillibrand.

I would like to have Commissioner Higgins respond to that first, please.

Mr. HIGGINS. Thank you, Mr. Chairman, Senator.

Yes, ma'am. Without a doubt, our analysis included the impacts and implications for the Guard and Reserve of the retirement system that we proposed. We believe it will operate very similarly there as it does in the Active Force.

Senator GILLIBRAND. So this chart here, does that show that, according to your study, the demographic prefers the hybrid retirement system that you have recommended? Is that what your chart shows?

Mr. HIGGINS. The survey questions we asked were highly influenced by some of our early thinking about what reforms may be possible. The answer is yes, a lot of what was in the survey is what you see today as our final proposal.

Senator GILLIBRAND. When you did survey the servicemembers, what were the things that they said they valued in a retirement plan?

Mr. HIGGINS. Choice, flexibility, and we believe that we have delivered on that with a plan that is multifaceted and delivers the force profile, which is what the Joint Chiefs demanded.

Senator GILLIBRAND. Your recommendation is that retirees leaving after 20 years of service have the option to choose a lump sum in place of all pension payments up through age 67, or to split the difference by getting half the benefit upfront and the other half spread out in monthly checks. All the options you recommend would resume monthly payments to retirees at age 67. How do you recommend that the DOD calculate the lump sum?

Mr. HIGGINS. We would suggest that they should consider an actuarial type of assessment and consider the interests of people, what would draw them to this benefit.

Senator GILLIBRAND. Okay. A different topic, I am particularly concerned about the well-being of families, so one of the questions that I wanted to ask was about those military families who are food insecure, who don't have enough food. I have been concerned by the small amount of servicemembers that use the Family Subsistence Supplemental Allowance (FSSA). You have recommended eliminating it in favor of the Supplemental Nutrition Assistance Program (SNAP). What factors informed your recommendation to do away with the FSSA rather than reform it? Do you think the

SNAP can adequately meet the needs of the servicemembers who live with chronic food insecurity?

Mr. MALDON. Senator, we gave a lot of consideration to that. We obviously want to make sure that we don't have anyone who is with the need and that need is not being met, especially with regard to nutrition or any other kind of support that the military should be providing for the servicemembers.

I am going to ask Commissioner Dov Zakheim to respond to the question.

Mr. ZAKHEIM. Thank you, Mr. Chairman.

One of the things is that SNAP tends to be more anonymous for people, so that you don't have to go through the chain of command and let the whole world that you have a problem.

Senator GILLIBRAND. Right.

Mr. ZAKHEIM. That is one of the bigger issues. There are not all that many people on the FSSA program.

Senator GILLIBRAND. Right.

Mr. ZAKHEIM. The benefits are actually a bit better.

Senator GILLIBRAND. That was the purpose of it, to give more support.

Mr. ZAKHEIM. Exactly.

Senator GILLIBRAND. But it doesn't really work.

Mr. ZAKHEIM. So you are doing a bit better. You are keeping your pride and dignity. It seems, to us, that it is kind of a no-brainer on this one.

Senator GILLIBRAND. Does the Basic Housing Allowance or other military benefits prevent servicemembers from qualifying for SNAP or will they still qualify? Did you do any analysis of who would qualify?

Mr. MALDON. Thank you for that question, Senator.

Commissioner Higgins?

Mr. HIGGINS. Senator, clearly, the Basic Allowance for Housing would have an impact on SNAP eligibility in some States. But I think the States have very different formulas, which was one of the complications that we encountered.

The major concern that we had was nobody really knows how many people actually participate in SNAP and receive the benefit. In addition, it appears that for most people, SNAP is actually a better benefit. So our original concern was to deliver to the families that have need the best benefit available. FSSA was not providing that. SNAP does.

But following right behind that is the awareness that we need to understand exactly which servicemembers are on SNAP. This is where we come in with our reporting requirements, to fully get that information.

Senator GILLIBRAND. To identify which ones are actually food insecure.

How would this affect families serving overseas, because they are not eligible for SNAP.

Mr. HIGGINS. We would retain the FSSA overseas, because there is a valid, urgent need there for the program.

Mr. ZAKHEIM. There is no alternative.

Mr. HIGGINS. Correct.

Senator GILLIBRAND. Right.

Mr. HIGGINS. SNAP doesn't reach overseas.

Senator GILLIBRAND. Do you plan on any particular outreach to try to assess which families are food insecure, so that you can be more supportive?

Mr. HIGGINS. I think one of our recommendations is to ensure that the States are properly accounting for servicemembers and their families as they approve people for SNAP. The commission obviously may not be the ones making these decisions, but once DOD has the information, then you can reassess what changes to the pay system may be required, once you fully understand who is in need.

Senator GILLIBRAND. I have a lot of other questions that I can submit for the record. But specifically, I want to talk a little bit about commissaries and exchanges, as well as child care on military installations and education benefits. So I will submit those for a written response.

Thank you, Mr. Chairman.

Senator GRAHAM. Thank you. Very good questions.

Senator Tillis?

Senator TILLIS. Thank you, Mr. Chairman.

Gentlemen, thank you for your work. I want to go back and maybe cover some of the points that Chairman Graham made.

First, I am assuming that the anticipated adoption rate of the new plan has a lot to do with, well, let's say somebody like the chairman, who is a little bit more advanced in his pension accruement, so he may end up deciding to stay on the plan, when he asks that question of himself.

But with the pyramid being among some of the younger, less tenured people, it looks like it is more or less following the same trends that you have seen with these type of pension transitions in the private sector. Is that right? Does it fit pretty much with that adoption rate?

Mr. MALDON. I think that is fair, yes.

Senator TILLIS. The question that I have in that is, I know there are some people who may have some concerns with tying some of the retirement to stock, but it is also using contemporary models another 401(k) programs to optimize the return. Is that correct?

Mr. MALDON. That is correct.

Senator TILLIS. Then, in the process of doing this, one question I have is with respect to the adoption rate. Over what period of time do you think you would see the mix where the proposed plan, people would opt in? I am assuming there is an opt-in when they come into the Service, there is some period of time, but the ones already here can make that decision. Over what period of time do you see the plan being implemented?

Mr. MALDON. Commissioner Higgins?

Mr. HIGGINS. Thank you, Mr. Chairman, Senator.

Sir, we have to be clear about the two groups of people we are talking about here. One is all the new accessions. They will be in our proposal, if our language is adopted.

Senator TILLIS. From that point forward.

Mr. HIGGINS. As we recommend. As soon as they enter Active Duty, new accessions.

Those who are currently serving will have the ability to opt in. We feel the strength and power of our proposal would draw many of the currently serving people in, up to a certain point, up to, say, 10, 12 years of service, where their investment in the current system is perhaps more remote in their perspective than what we are offering. I think you will see very high rates, indeed.

Mr. MALDON. Senator, we do have a data point. We know that 40 percent of folks in the military now are investing in TSP with no government match.

Senator TILLIS. So they are already in, fundamentally, the same sort of plan without any leverage.

Mr. MALDON. Without any leverage. So that is a pretty good indication of what my colleagues just said.

Mr. HIGGINS. If I could, sorry, the opting in is limited. There is a window.

Senator TILLIS. What is that window?

Mr. HIGGINS. I believe it is 6 months, if memory serves.

Senator TILLIS. One of the questions I have, because I think it is a good idea to add the additional cost for financial literacy, and there may very well be that some may not opt in, not because it is not a good idea but because they don't understand that it is a good idea. So that is why I was asking about of the enrollment window.

To what extent are we really presenting to those who have the choice, and are probably within a window where it will most likely make sense for them to go this route, that they have the right education and materials to make that decision?

Mr. MALDON. Step one is a briefing for every servicemember concerning our recommendations, assuming they would be adopted, throughout the force, to ensure that the force knows what is available to them.

Mr. ZAKHEIM. It is going to be continuing. That is another point that is very, very important. I mean, it is not fire-hosing a 19-year-old for 6 hours or something, and then he or she has no idea after the 6 hours are over.

We studied this in great depth. We even talked to other militaries about it.

Clearly, if you have a regularized approach, people go through different stages in their lives. They get married. They have children. They get promotions. At each major stage, the idea is that you come back and say, well, now you are at this stage, here are some of the concerns you ought to bear in mind, here is how you might want to look at the benefits available to you.

So it is a completely different approach to financial literacy than the military has today.

Senator TILLIS. A different line of questioning, but how does this work out for the government in terms of saving us money or managing our long-term obligations?

Mr. MALDON. Thank you, Senator, for the question.

There is savings, but not savings. By that, I mean there is a $75 million cost per year to actually support or sustain this kind of training that we are recommending, because we are talking about a very robust kind of training.

Senator TILLIS. Oh, I am sorry. I completely agree with the value of the financial literacy. I am back to the program as a whole. How do the economics of this look versus the current state?

Mr. MALDON. I'm sorry, Senator. I thought you were still on the other question. I apologize for that.

Commissioner Zakheim?

Mr. ZAKHEIM. Sure. You are going to have, initially, some outlays, because you have to get the TSP program going. But our numbers show that in budget terms, budget authority terms, you are already saving up to $1 billion in 2016, if you went immediately.

Senator TILLIS. So that is after you fund the transition bubble?

Mr. ZAKHEIM. The transition bubble is an outlay number. This is a net budget authority number. By the time you get out to where this really kicks in, so this is quite a few years down the pike, say 2053, you are talking about savings and outlays of nearly $15 billion a year.

Senator TILLIS. Great. I had another question. It is on a different topic, and it is with the unemployment. I read a little bit on it, but I would like to get your take recommending eliminating unemployment compensation for those on the post-9/11 G.I. Bill. What was the thought process behind that?

Mr. MALDON. Senator, we wanted to make sure that when we looked at each one of these programs, we wanted to take a very hard look at what the intent of those benefits were and to make sure that they were being delivered in a cost-effective way. As we did that, in talking to people across the country that we talked to, we would find out that there were servicemembers who were getting unemployment benefits. They were using tuition assistance benefits. They used the the 9/11 Montgomery G.I. Bill. There were a number of duplicative benefits that servicemembers were receiving.

We did not think that we could not just look at that and look past it, because it was just not an efficient way to do that. We wanted to make sure that we could sustain the educational benefits for a very long time. The way to do that was really to look at those things that we could do away with. The unemployment piece of that, which is something where if a servicemember was receiving tuition assistance and using that tuition assistance to go to school, there was no reason to actually be getting unemployment and having the BAH paid for as well.

Senator TILLIS. Thank you all for the work. As speaker in North Carolina, we were trying to get this done for our State employees, and I think we will ultimately do it there. This is great work, and I look forward to hearing more about it. Thank you.

Thank you, Mr. Chair.

Senator GRAHAM. Senator King?

Senator KING. Thank you, Mr. Chair.

The premise, as I understand it, was that this was not a budget-cutting exercise. It was a realignment of compensation exercise and the sort of underlying assumption was that people aren't going to be hurt by this. However, I note that there is a budgetary impact of something like $4.8 billion in year one and $30 billion over 10 years.

That money isn't coming out of the air. Isn't that coming from military personnel in one way, shape, or form?

Mr. MALDON. Thank you, Senator, for the questions.

Those are savings, but those are savings that we arrived at by achieving efficiency in some the various programs that were decades-old and just weren't serving a purpose. The funding for those programs were there. The benefits to servicemembers, from what the servicemembers have told us, is that they just were not meeting their requirements.

I am going to ask Commissioner Higgins to speak specifically to the cost savings there.

Mr. HIGGINS. Sir, with regard to retirement, where there were significant savings, as you suggest, we believe, and our analysis would confirm, that servicemembers who stayed in 20 years, over the course of their lifetime, their assets will be as good or better under our proposal.

That could vary based on the assumptions that you apply to that formula, but what I would like to maybe clarify for you, where I think you are going, is do we save this money on the backs of servicemembers who are loyal, faithful, and serve through their 20 years?

Senator KING. Well, you are showing $30 billion in savings. Like I said, it is not coming out of the air. It is coming from somewhere.

Mr. HIGGINS. With regard to retirement, it is a more effective use of dollars. We are moving dollars from future benefits to current dollars. Those dollars are far more effective in producing retention than dollars that are paid later in a differed plan. We are delivering a Thrift Savings Plan, the continuation pay, new choices, new flexibility, a lump sum, for example, on retirement.

Those are all things that people want that we delivered under a modernization, not a cost-cutting objective, but a modernization objective. We deliver on those, and those are highly effective in producing retention. That is what our analysis that we believe in suggests is true.

Senator KING. Well, you mentioned retention, and it seems to me that is what this is all about. A fundamental difference in the military system than in the private sector is that in the military system, you have to grow your talent. You don't hire middle managers in midcareer. So retention is the whole deal.

I am concerned, for example, how the new system would affect somebody who has done their 20 years, because you get some of the most important service between 20 and 28 or 30 years. My understanding is that the incentive to stay those additional years really diminishes under the plan that you are proposing. Can you react to that thought?

Admiral GIAMBASTIANI. Senator, if I could, I think, first of all, it is important for you to know that of the nine commissioners who have unanimously put this report together that I am guessing we have 130, 140 years of military service amongst all nine of us. I don't know the exact number, but it is pretty close.

So we looked at this, how we sustain the All-Volunteer Force. Having, for example, speaking for myself, I came in during Vietnam, during the draft era. I had a lot of fine people serving with me. But the midgrade chief petty officers, sergeant majors, all of

those senior enlisted frankly didn't exist in big numbers and didn't stick around very long. So that is part of the retention profile that we looked at, in addition to officers.

Senator KING. They got nothing.

Admiral GIAMBASTIANI. Correct.

Senator KING. The current system is it is 20 years or nothing. Isn't that correct?

Admiral GIAMBASTIANI. Well, no. It is for 20 years for retirement pay. They get the G.I. Bill. There are other V.A. benefits. But the retirement plan.

So we looked at this, and as you can see from our surveys, we went out and talked with folks. We wanted to make sure that we maintained the best profile.

The chairman in his opening statement said that the Joint Chiefs asked us to look very carefully at the profiles that the Services needed over a career path. So we tried to put together a whole series of packages.

We looked at 350 programs, frankly, and we came up with only 15 recommendations. The reason is that those are the most important to provide the value, the benefits, the access, choice, retention, all the rest of it. We think we have put a pretty complete package together.

I would say one thing. Will some of the retirees pay more? The answer is yes. We have a program in health care where the non-Medicare, Social Security-eligible retirees will pay 1 percent more per year, if you will, from the 5 percent they are currently paying over a 15 year period, up to a total of 20 percent.

So, yes. There are a couple of these were somebody's going to pay a little more like that. But the vast majority of these are, for example, because we reduced the TRICARE staff significantly, we have reduced the Defense Health Agency staff in the Pentagon by transferring many of these to this Federal-type health program, if you will, including the Military Treatment facilities.

That is where we come up with a lot of these, if you will, efficiencies and savings, so that we can finance these better programs.

Mr. ZAKHEIM. Senator, as you probably know, I used to be Comptroller of the Pentagon, so I worried a lot about budgets. There are really two ways to approach what you are raising. One is to say that I have to find some money. How do I do it? So I will slice off here, I will slice off there.

The other is to get entirely off the cost curve. That is what we have done. It is not just retirement that saves you money. As Admiral Giambastiani just said, the health care approach that we are taking saves you money. Yet, it benefits the consumer.

When you think about it, in the private sector, that happens all the time. Computers get cheaper. They get better at the same time they get cheaper.

What we are essentially doing is getting off the classic cost curve, a cost curve that, by the way, has been around in some cases for 70 years, give or take, and saying, if you have an entirely new approach, you not only save some money, which was not, as the chairman said, our priority, but you are really bringing your military into 21st century choice.

It is a very different military from when I came into this business in the mid-1970s, when most of the military people were young, single, no families. A lot of these issues never arose. It is different, and, essentially, this is a 21st century program.

Senator KING. Well, I am not taking a position on your proposal yet. I just want to underline that this retention issue, it seems to me, is really crucial. We cannot make a mistake because it may be 10 years before it manifests itself. That is why I think we really to be careful with fully modeling it, thinking about it, having a representative group that fully understands the survey and what the options are.

So I just throw that out, Mr. Chairman.

Mr. ZAKHEIM. Senator, you are absolutely right. One of the things, if you look at, and this actually points to the comprehensiveness of what we are doing, why it all hangs together. So you have, for instance, under our approach, the G.I. Bill, 10 years you vest. You commit to 2. That brings you to 12. At 12 years, you get continuation pay. You commit to 4 more. It brings you to 16. At that point, you are in for 20.

So if you look at the package, it is actually a phenomenal retention tool, and that is what the analysis that we had showed, to a great degree.

Mr. MALDON. Senator King, let me also add, please, that DOD sent a white paper to the commission last March. They concluded that a blended retirement plan like the one we have proposed would sustain the recruiting and retention, just to kind of make that point here, that that was their conclusion with their white paper, which we took into consideration as we moved forward with our deliberation.

Admiral GIAMBASTIANI. I think it is important to understand that you are creating a problem today as you ask individuals to leave the Service who have gone on two, three, four deployments and they leave with absolutely nothing.

My biggest concern is that they are going to talk to other people about how they answered their country's call, were planning to stay in for 20, and then asked to leave. I think our recommendation would go a long way in correcting what I believe is wrong there.

Senator PRESSLER. Senator King, your very original question, I just want to add one footnote, where does this money come from? In part, there is a reduction from 2.5 percent a year that one gets in their retirement formula. Our plan would reduce that to 2 percent. That is probably where some heavy lifting is going to come. Probably that will be objected to, to some extent.

But your very original question was where does the money come from. Some of it comes from that in the retirees' formula, the formula will reduce. Now it is 2.5 percent a year. It will be reduced to 2 percent a year, I believe. Correct me if I am wrong.

Senator GRAHAM. Thank you. Very good question, but as I understand the blended plan, you get a 40 percent guarantee defined benefit, but you get a matching Thrift Savings Plan for your entire 20 years. I think you are going to get more money at the end of the day.

Mr. ZAKHEIM. Senator, we have a chart I think that we could put up for you.

Senator GRAHAM. Well, the chart I am looking at is 80 percent of the people want to transfer into the other system. I think I know why.

But we are going to vote in about 5 minutes, and I will just start it off.

I think he asked a really good question about retention. The G.I. benefit, the Webb bill, for lack of a better word. Senator Webb did a great job. Senator McCain and I had a real concern.

I want to be generous after 4 years, but I want to keep people around. So one thing we did that I think was really smart, is if you stay in 12 years, after 12 years, you can actually transfer your G.I. benefits to your kids. I'm working on grandkids.

So think about this. If you retire, now the G.I. benefit that you didn't use in the military, basically pay for your education, there will be a pretty healthy benefit left, if you manage your career right. You can actually pay for your kids' college. I thought that was a real incentive to stay past 12 years, that if you make it to 20, you can take the G.I. benefit and actually use it for the benefit of your children.

But the goal is to be generous, sustainable, and keep people around who we want to keep around. I hate the fact that after 12 years of fighting in Iraq and Afghanistan, you get a pink slip and you get zero. Under sequestration, that is going to be more likely than not.

Remember what we are doing to the force here. We are going to reduce personnel down to the lowest level since 1940 in the Army. That means a lot of people are going to be asked to leave before they get to 20, and get nothing for it. That is why we have to be smart about sequestration and about what you are trying to do.

So any second rounds?

Senator TILLIS. I look forward to actually meeting with some of your representatives to talk more about the plan design. I think Senator King makes a great point. If there are documented savings and there are things we can realize, versus on paper savings, then there is something to be said for turning those savings back into even more benefits for the veterans, really use those for strategic investments that address retention, those sorts of things.

A question I had is since this has come out, I see what the graphic says here in terms of the adoption rates, but what are you hearing from people? When I have gone through these types of conversions before, everybody hates it until you go through the financial literacy and really show what it means to the large number of people who will probably opt into it. Are you getting resistance now? Is it generally positive? Where are you in terms of the stakeholder community and feedback?

Mr. MALDON. Senator Tillis, I think at this point in time I do still believe that it is kind of early in the process to really give a definitive answer to that question. But I think for the most part, the support the recommendations, the report, is getting, it seems people are rather supportive of it.

I think it is fair to say that a lot of the key stakeholders who would be impacted in some way by this or associated in some way

with the decisions are thinking that they still need to know more about the details. So we are in the process of going through that. So I am sure we don't have the final decisions from them in terms of where they might be at this point in time. Most are supportive at this time.

Admiral GIAMBASTIANI. If I could add, Senator, in talking with members of the Joint Chiefs, these are the Service Chiefs, they would tell you that at the beginning of this process when this commission stood up, there was a tremendous amount of doubt with the Active-Duty Force out there that you were messing with my retirement system. Senator Graham made that point many times at the beginning here.

Once the message has gotten out by the senior officers and senior enlisted across the force, the heat level went down dramatically. So that is very important for those stakeholders.

Mr. ZAKHEIM. I would just add, Senator, and this is purely anecdotal, I am getting a lot of emails from people, some whom I know and some whom I don't. I mean, it is literally running 99–1 in favor.

Senator TILLIS. Well, I would think that you benefit from this working relatively well in a lot of large, complex organizations out there. I do think, though, that what Senator Graham opened up his comments with is very important. If you like your current plan you will have the option to keep it, and we mean it this time. So I think that that is critically important.

When you wind into that the financial literacy, this is something that is critically important, something I have seen benefit from policy down in North Carolina, then you are going to help these folks make some very positive decisions. I think they will become positive supporters of this plan.

So thank you for your work. I look forward to learning more about it.

Senator GRAHAM. Thank you, all. Anything else? I think they have just called the vote. Does anybody have any more questions?

If not, we will let you go. Well done.

One final thought, if you are 18 years in, I am probably sticking with what I got. But if I am just getting started, I like the blended plan.

We have to fix sequestration, because Senator King has raised a great point. How do you retain people? Well, under sequestration, you can't. You are going to have to let a lot of people go. We need some kind of system to at least be fair to these people. If you are going to let them go, you ought to pay them for their honorable service rather than just say thank you.

So I appreciate the hard work.

Mr. MALDON. Thank you, Mr. Chairman.

Senator GRAHAM. Why don't we go vote? We will stand in adjournment, go vote, and come back to the second panel. How does that sound?

Senator GILLIBRAND. That is perfect.

Senator GRAHAM. Okay.

[Recess.]

Senator GRAHAM. Thank you all.

Can we get the second panel upfront and ready to go?

I apologize. We had to go vote.

So panel two, could you introduce yourself, starting with the Air Force Sergeants Association.

Mr. FRANK. I am Rob Frank, retired Chief Master Sergeant of the U.S. Air Force, and I am the CEO for the Air Force Sergeants Association.

Ms. PARKE HOLLEMAN. Good afternoon. I am Deidre Parke Holleman. I am the head of the Washington office of The Retired Enlisted Association.

Mr. JONES. My name is Rick Jones. I am the legislative director for the National Association for Uniformed Services.

Mr. NICHOLSON. I am Alexander Nicholson, legislative director for Iraq and Afghanistan Veterans of America.

Senator GRAHAM. Thank you all for coming. I don't have an opening statement. Would you all like to go with ladies first? How would you like to do this? Do you want to give a quick opening statement, or do you just want to take questions?

Ms. PARKE HOLLEMAN. Well, I wrote it. I will give it a shot.

Senator GRAHAM. Well, you wrote it, and I will listen to you, if you read it.

STATEMENT OF DEIRDRE PARKE HOLLEMAN, EXECUTIVE DIRECTOR, THE RETIRED ENLISTED ASSOCIATION

Ms. PARKE HOLLEMAN. Thank you kindly. Chairman Graham and members of the subcommittee, thank you for the opportunity to testify on behalf of the men and women of The Retired Enlisted Association concerning the retirement recommendations made by the Military Compensation and Retirement Modernization Commission.

May I ask that our full written statement be made part of the record?

Senator GRAHAM. Yes, ma'am. Your entire written statement, including the first panel, will be made part of the record. Thank you.

Ms. PARKE HOLLEMAN. Thank you.

The Retired Enlisted Association is the largest veterans organization in the Nation that was created specifically for enlisted personnel from all the branches of the armed services. We were founded in 1963 and congressionally chartered in 1992.

The commission has outlined a series of recommendations that would result in the blended retirement system that contains elements of a defined contribution retirement plan while retaining a good bit of the military's current 20-year, cliff-vesting defined benefit plan.

We are very grateful that you wish to hear our views, though a bit breathless as well. We are told the Pentagon, with all their resources, is working like mad to develop response to present to the President in 60 days. We have only had 13 days to prepare comments to present to you.

Because of that timetable, we must say that even with the fine cooperation of the commission's members and staff, we are far from having the numbers, details, and analysis that are needed to accurately and thoroughly assess the recommendations.

With that large caveat, we acknowledge that the report of the commission is a serious analysis that contains interesting pro-

posals. It is clear that they made an honest attempt to change and, in their view, improve the system as it is now.

But first, we should note that the present cliff 20-year retirement system has worked very well for over 40 years for our all-volunteer military. It has worked during good and bad economic times, and amazingly well during the last 13 years of war. Therefore, we believe that Congress should adopt the medical model of first do no harm when considering overhauling the present system.

On the other hand, we agree improvement should be made whenever possible to a system designed not only to attract personnel to our Armed Forces who will defend our Nation but also to care for him who shall have borne the battle and for his widow and his orphan, as President Lincoln said. We recognize, of course, that this is now the motto of the Department of Veterans Affairs, but it is equally true when it comes to those currently serving, not just for those who have left the Services.

It is a splendid idea to provide a portable retirement investment account for those who serve in our uniformed services but leave, for whatever reason, before serving 20 years. It is also a first-rate idea to provide effective financial education to all those who serve. But neither benefit should be paid for by reducing the retirement of those who served 20 years or more.

Does this proposal do that? We are worried that it may. We have many concerns.

First, clearly, there is a 20 percent cut in the defined benefit plan value from 50 percent to 40 percent. How is that made up? There is the Thrift Savings Plan where, except for an initial 1 percent, retirees must contribute their own money to receive any of the government's matching contributions.

It should be noted, as was noted earlier, that currently 40 percent of the presently serving force is contributing to nonmatching TSP to augment their present defined plan. Thus, this advantage to future members would be lost.

Another issue of concern is that the 12-year bonus payment, which is listed as part of the retirement calculation but certainly looks like present taxable income and not tax-deferred income, it seems to us that in order for that to be part of the retirement calculation, a change in the law would have to be made.

In addition, the commission says that they are leaving the method of calculating the lump sum payment proposal to the Secretary of Defense, as was discussed a bit in the first panel. We question whether that is appropriate since a new Secretary could change the method with the stroke of a pen.

Further, is the discount rate used in calculating present value of future money correct? According to the senior pension fellow of the American Academy of Actuaries, who is quoted the Military Times regarding the commission's use of a 12.7 percent discount rate, it is not. I quote, "Twelve percent, my gosh. That is an outrageous rate to use for something like that."

The article went on to say private sector companies would normally use 4 percent to 5 percent, but he said that he would use an even lower rate, perhaps 2 percent to 3 percent, because the U.S. Government is considered the safest lender in the world.

We believe that the reason for this dramatic disparity is because the commission is not using actual value of an E–7's present retirement, which DOD pegged at $1.1 million last year, but rather the servicemember's perceived value of the benefit. It appears to us the thought behind this is that if the servicemember's perception is favorable, even if it is incorrect, retention will not be harmed.

That assumption may be correct, but is it appropriate? The value of a retirement plan should first be analyzed objectively, not subjectively. Doesn't Congress have a duty to protect the objective interests of the men and women who in the future will continue to serve the Nation in danger, inconvenience, and loneliness for 20 or more years?

The commission has proposed that servicemembers be given effective financial education, and we agree. Shouldn't this sophisticated financial analysis be used when considering the creation of a new retirement system. We believe that it should even when changes are being considered in part for the admirable goal of improving the situation of those who have served 3, 5, or more years in our same uniformed services.

These are just a few of the worries and questions that we have concerning the commission's retirement proposals. I will, of course, try my best to answer any questions you may have for me.

Again, thank you for the opportunity to speak before you and thank you for all that you do for our servicemembers.

[The prepared statement of Ms. Parke Holleman follows:]

PREPARED STATEMENT BY THE RETIRED ENLISTED ASSOCIATION

Chairman Graham, Ranking Member Gillibrand, and members of the subcommittee, thank you for this opportunity to submit testimony on behalf of the men and women of The Retired Enlisted Association concerning the retirement recommendations made by the Military Compensation and Retirement Modernization Commission (MCRMC). The Retired Enlisted Association is the largest veterans organization in the Nation that was created specifically for enlisted personnel from all branches of the armed services. We were founded in 1963 and congressionally chartered in 1992.

The MCRMC has outlined a series of recommendations that would result in a blended retirement system that contains elements of defined contribution retirement plan while retaining a good bit of the military's current 20-year, cliff-vesting defined benefit retirement plan.

We are very grateful that you wish to hear our views though a bit breathless as well. We are told that the Pentagon, with all of the resources at its command, is working feverishly to develop a response to present to the President in 60 days. We have only had 13 days to to prepare comments to present to you.

Because of that timetable we must say that even with the fine cooperation of the Commission's members and staff we are far from having the numbers, details, and analysis that are needed to accurately and thoroughly be able to assess the recommendations. With that large caveat we acknowledge that the report of the MCRMC is a serious analysis that contains interesting proposals. It is clear that the Commission made an honest attempt to change and, in their view, improve the system as it is now.

But first we should note that the present cliff 20 year retirement system has worked very well for over 40 years in our All-Volunteer military. It has worked during good and bad economic times, and amazingly well during the last 13 years of war which, after all, is what it its purpose is. Therefore, we believe Congress should adopt the medical motto of "first do no harm" when considering overhauling the present system.

On the other hand we agree improvements should be made whenever possible to the system that is designed not only to attract the personnel in our Armed Forces who are required to defend our Nation, but also "To care for him who shall have borne the battle and for his widow, and his orphan," as President Lincoln said. We recognize, of course, that this is the motto of the Department of Veterans Affairs.

But it is equally true when it comes to those currently serving, not just for those who have left the Services.

It would be a splendid idea to provide a portable retirement investment account for those who serve in our uniformed services but leave (for whatever reason) before serving 20 years. It is also a first rate idea to provide effective financial education to all those who serve. But neither benefit should be paid for by reducing the retirement of those who serve 20 years or more in the Services.

Does this proposal do that? We are worried that it may. Clearly there is a 20 percent cut in the Defined Benefit Plan value from 50 percent to 40 percent. How is that made up? There is the Thrift Savings Plan (TSP) where the retirees must contribute their own money to receive any of the government's matching contributions. (It should be noted that currently 40 percent of the presently serving force is contributing to non matching TSPs to augment their present defined plan. Thus this advantage would be lost.)

Another issue of concern is the 12 year bonus payment, which is listed as part of the retirement calculation but certainly looks like it is present taxable income and not tax deferred. It seems to us that in order for that to be part of the retirement calculation a change in the law would have to go through the Ways and Means Committee. In addition, the Commission says they are leaving the method of calculating the lump sum payment proposal to the Secretary of Defense. We question whether that is appropriate since a new secretary could change the method with a stroke of the pen.

Further, is the discount rate used in calculating present value of future money correct? According to the senior pension fellow for the American Academy of Actuaries, Mr. Donald Fuerst, who is quoted in the Military Times, regarding the Commission's use of a 12.7 discount rate and I quote: "Twelve percent! My gosh, that is an outrageous rate to use for something like that." The article went on to say private sector companies would normally use a 4 percent or 5 percent but Mr. Fuerst said that he would use an even lower rate (perhaps 2 percent or 3 percent) because the U.S. Government is considered the safest lender in the world.

We have heard that the reason for this dramatic disparity is because the Commission is not using actual value of an E–7's retirement (which the Department of Defense (DOD) pegged as $1.1 million last year) but rather the servicemember's "perceived value" of the benefit. It appears to us the thought behind this is that if the servicemembers' perception is favorable, even if it is incorrect, retention will not be harmed. That assumption may be correct—but is it appropriate? Doesn't Congress have a moral duty not to mislead men and women who have served this Nation in danger, inconvenience and loneliness for 20 or more years? The Commission has proposed that servicemembers be given effective financial education, and we agree. Shouldn't this education occur before they are asked to make these crucial and complicated decisions? We believe that honor requires members understand what these changes would mean to them even when these changes are being proposed, in part, to protect the interests of others who have served 6 or 8 or 10 years in the same uniformed services.

We recognize there is real concern about the lack of fairness in the current retirement system when it comes to military members who leave after 10, 12, or other multiple years of service but have no savings or investments to show for that service. This seems especially unfair to those who may have served multiple combat tours in Iraq and/or Afghanistan.

We agree that the current retirement system needs to be changed in order to give servicemembers an investment portfolio they can take with them when they leave the Service, even if they do not stay for a 20 year career. However, we strongly oppose any reduction in the retirement benefits career military personnel currently receive as a way a paying for a new benefit for those who leave prior to 20 years.

The retirement recommendation of the MCRMC gives us concern because it appears to provide a greater incentive to leave at critical retention points, especially during periods of great stress for personnel such as they have experienced since 2003. It also appears to give less incentive to those who stay for a 20 year career to remain in the Service after the 20 year point. That's because the government contribution to the TSP ends at 20 years, which means the only addition to the TSP that would occur after 20 years would be contributed by the servicemember. It seems to us that any senior noncommissioned officer or any officer who is an O–5 or O–6 would be smart to leave at that point. If that happens, the Services would lose the cadre that are their very backbone and the resulting loss of expertise and leadership would severely harm them.

We also question the wisdom of putting additional financial pressures and worries on senior personnel deployed to a combat zone should the market drop, as happened in 2008. The stress of serving and providing leadership in a combat zone, as well

as keeping in touch with family members and dealing with family issues should not be increased by adding on additional pressures regarding retirement financial matters.

The Commission's recommendations for changes in the Guard-Reserve pay and retirement generally follow those recommended for active duty personnel. However, there are some exceptions and we believe, as has happened so often in the past, Guard-Reserve members could end up that is not equal, in terms of treatment, to the active duty in spite of their exemplary performance during the past 12 years of war.

Specifically, the recommendation for continuation pay at the 12th year of service is for an amount that is equal to 0.5 times the serve member's monthly basic pay, as if the member were on active duty. However, the active duty continuation pay is recommended to be 2.5 times monthly basic pay. We believe this is unfair and discriminatory and the Guard-Reserve amount should be 2.5 times monthly basic pay, the same as the active duty.

In addition, the commission's recommendation calls for the Guard-Reserve member to earn basic pay in a "given period" to make TSP contributions and to receive government contributions into their TSP accounts. This "given period" needs to be clearly defined and needs to take into account varying drill periods among Reserve component members, depending on their type of drill status.

There also needs to be clarification regarding whether Reserve component members would get the lump sum payment when they enter the Retired Reserve, just as active duty members would.

As we have stated before, many aspects of the Commission's proposal deserve much more study before it would be appropriate to come to any sort of definite conclusion as to its merit. But it is readily apparent to TREA that the Commission's proposals seek an equivalency between military occupations and those in the private sector. On this we simply do not think that the proposals hit their mark.

It is laudable that the Commission has made such a serious attempt at making sure every servicemember leaves with "something" at the end of their time in service. But this proposal will simply not accomplish the mission of creating a smooth transition between the military and civilian sectors. We agree that a system like this will make the transition into the private sector easier for those who fail to complete 20 years of service, but it will not erase the vast gulf that already exists between the military and the private sector.

When a servicemember with a Military Occupational Specialty (MOS) of 19–K, which is an M1A1D/A2 tank crew member, transitions out of the Service they are told that "there is no civilian equivalent" in the private sector. The mission of DOD is ostensibly to provide for the national defense. But many servicemembers are trained in warfighting skills and it is not surprising that for those individuals the private sector has difficulty in translating military skills and placing value on military experience.

The Commission's proposals are a welcome attempt to rectify this inequity. The fact is, however, that this incongruity between military service and the private sector will never be erased. Servicemembers who get out after one or two enlistments, usually at the 4 to 8 year point of time in Service, will still be junior to their age cohort when they eventually take private sector jobs. This "seniority delta" will remain for their entire career, as will reduced salaries and wages when compared to their age cohort. As all human beings are limited to a finite number of working years, there is simply no way to overcome this fact of military service.

Another inconvenient fact about military service is that the longer one serves in the military, the greater the impairment their career suffers when they inevitably transition out. The vast majority of military retirees are not four star admirals or generals with $500,000 defense contractor consulting jobs lined up; they are E–7s with many fewer options. They are unable to build up equity in a home because they are moving every 2 to 3 years, and their educational accomplishments are often lacking as well.

Frankly, this proposal disincentivizes these individuals from serving any longer than exactly 20 years in the military. Every month longer that they serve is another month that they are missing out on an employer match to their TSP, or to a 401(k). As rational actors (as the vast majority of individuals who serve 20 years in the U.S. military are) most people are going to move to a situation that is the greatest benefit to them. For servicemembers to serve any longer than 20 years sizeable bonuses or other inducements are going to be needed to get them to stay in the military when they realize they may be missing out on a matching employer contribution to their TSP or 401(k).

If a servicemember decides to stay in the military for more than 20 years, they are taking on an even greater risk that the TSP portion of their retirement may

not be there when they retire. One need not go back to 1929, only to 2008 for an example of what can happen. It has taken nearly 5 years for the average 401(k) to return to the level that it was at in 2008—not to mention all of the growth potential that has been lost. It seems unfair to ask servicemembers, even after they pass the 20 year point, to bear the risk of their TSPs declining in value even as they volunteer to die in defense of this great country.

In the final analysis, this proposal from the Commission attempts to bridge the gap between military and civilian employment, but does not accomplish what it sets out to do. Wage and salary gaps that result in lessened career earnings will still persist. Further, in attempting to save money by ending the DOD's matching contribution to the TSP at 20 years it actually disincentivizes the vast majority of servicemembers from spending any more than 20 years and 1 day serving their country. As DOD knows, many of these servicemembers have skills and knowledge that the military cannot afford to lose, en masse, at exactly 20 years.

One aspect of the Commission's proposal that we think Congress should strongly consider supporting is the one that makes ability to transfer the Post-9/11 GI Bill to dependent family members vest once the servicemember reaches 10 years in Service.

The Post-9/11 GI Bill is one of the great legislative accomplishments of the 21st century because it shows how America honors those who have committed to defend her. By covering the full cost of in-State public school tuition to attend any accredited school in the country as well as providing money for books, housing, and a monthly stipend returning servicemembers are permitted to concentrate their full attention on their studies while they successfully reintegrate back into American Society.

Recognizing the vast value that the Post-9/11 GI Bill has to servicemembers in this way will strengthen the morale of America's fighting force far into the future. That being said, we have grave concerns about the part of the proposal that would take away the housing stipend from dependents that have had the benefit transferred to them. Making college less affordable, even if it only refers to housing costs, for the dependents of servicemembers who have served our country honorably for over 10 years seems an odd way to honor their sacrifice.

We look forward to participating in more debate about how to strengthen the current system to overcome these obvious hurdles and we are happy to answer any questions on these issues.

Senator GILLIBRAND [presiding]. Mr. Frank?

STATEMENT OF ROBERT L. FRANK, CHIEF EXECUTIVE OFFICER, AIR FORCE SERGEANTS ASSOCIATION

Mr. FRANK. Ranking Member Gillibrand, members of the subcommittee, it sure is an honor to be here to speak on this particular commission's report. We have some early analysis, of course, with similar concerns that she has outlined, but I am going to get right to the point. Why is it that we are talking about reforming the system? To be frank, and the elephant in the room, is this about saving money? Is it about the bottom line? $12 billion is nothing to sneeze at when it comes to savings of our government taxpayer dollars.

But the commission has reported to us that no, that wasn't the objective of this. Is this change for the sake of change? We have a perceived antiquated system. It is decades old and people say it should be modernized to match the private sector. I will point to the fact that other than when our retirement system has been tinkered with, and Congress, certainly, has done a good job of fixing that in the past, that this is ushered in the All-Volunteer Force. It has got us through good economic times and bad. It certainly has put us through 20 years of high operations tempo and war.

But when we talked to the commission, they said our objective was to create a better system. So the real question is, how is this a better system for the Services? Does it combat a perceived recruiting and retention issue? I am ready to tell you that is a phan-

tom menace. We haven't missed recruiting goals in years. As a matter fact, over the last couple of years, we have had to tell people that they need to leave. Notably so, we do give them severance pay and other things as they leave the service. But again, our recruiting and retention issues are not a problem in today's military.

We are led to believe that 83 percent get out with nothing. That is nothing except for that $80,000 education, significant home loan guarantees, hundreds of thousands of dollars in training and experience they will take to get a great job, numerous veteran benefits, a 401(k) style system that they can invest in today for their future retirement, and, of course, the title of veteran. In recent times, less than 1 percent carry that title.

Retention is the biggest concern I think that we have. We can look at the past, and back in 1986, of course, we changed the retirement system. Ten years later, Congress had us take some time to fix that system. What is it going to look like 10 years from now if this is enacted?

The cumulative effects of everything else that is on the table, not to consider necessarily what is in this report but everything else, and then we create a system where it is easy to off-ramp at early points in their career, could have significant impact on retention, especially when the economy rebounds.

This system has been compared to the private sector, and let me be very clear about this. This way of life has no comparison. To add to that, in the private sector, if you are running a company, you have someone with 10 years' experience who gets out, what do you do? You go hire somebody with equivalent experience to take their place, and you move on with the mission of your company.

We cannot do that in the U.S. military. We must grow our experience. It is different, and we have to take that into consideration.

Senators, we need people to go 20-plus years. In the Air Force, most significantly, our enlisted corps, we have a higher rate of folks who go to 20-plus years for a reason. We need them to do that.

We as an association urge the committee to proceed with caution. Education about this new system has to be upfront. Financial education in my background, I can tell you, it is not enough for what they need, especially when they have to start making decisions about their own retirement.

The chart said 80 percent were in favor of this. I know the charts are gone now, but it said 80 percent were in favor of this. Now that everything is in context, and we have run our surveys, I can tell you that there is a stark difference in what people currently serving in uniform today say about the choice between this system, what they have today, and what the future proposal is.

We, certainly, don't want the budget to be balanced on the backs of our servicemembers. We welcome change. Change is good, but change for the better.

To take away from those who have gone the long term, the ones we need to go long term, to take away from that to give to those who are one and done will have a significant effect on the All-Volunteer Force. Thank you.

[The prepared statement of Mr. Frank follows:]

PREPARED STATEMENT BY CMSGT ROBERT L. FRANK, (RET.)

Chairman Graham, Ranking Member Gillibrand, and members of this committee, thank you for this opportunity to present the views of the Air Force Sergeants Association (AFSA) on the military retirement recommendations of the Military Compensation and Retirement Modernization Commission.

AFSA is a 110,000 member strong, federally chartered, worldwide veterans and military service association representing the quality-of-life interests of current and past enlisted airmen as well as their families. We are in a unique position to have a good understanding of the views of enlisted servicemembers as half of our membership is currently serving in uniform and half are retirees or veterans. We have chapters at every Air Force base around the world, as well as a variety of retiree chapters. As such, we have the pulse of our members and regularly receive feedback on a variety of important issues.

We want to thank the committee for its historic, nonpartisan focus on protecting this Nation and those extraordinary military citizens who subject themselves to unlimited liability to make freedom possible. We know your work here today is not an academic exercise. The recommendations of the commission and how this Congress acts on them will have a great impact on the morale of those serving, their decisions whether or not to pursue the military as a career, and the attitudes and well-being of those who love and support them. More importantly, these recommendations will have a significant impact on those who have not yet decided to serve, as well as the effect on retention well into the future.

Today, I want to briefly comment on the commission recommendations relative to changing the structure of the military retirement program itself. The tasking to the commissioners was extraordinary, and we certainly applaud their dedicated efforts. Their challenges were unique, and they delivered several recommendations for you to consider as this nation's military moves forward. We understand budget protection and reduction was not the stated motivation of the commission; rather, it was primarily the long-term efficacy of the All-Volunteer Force and the quality of the lives of those who serve.

Some say the current pay, benefits, and retirement systems are too generous. We would ask, "What is the basis for comparison to make that statement?" We would assert that you cannot fairly compare the lives of military members with those of other citizens, and there is no "job" like this for a true comparison. Military members face unique day-to-day risks, demands, and challenges, and a condition of their employment is a pledge to give up their very lives if ordered to do so. As such, it would seem to us that the measurement of success of the current compensation, benefits, and retirement systems has to be based on the success of recruiting and retention.

Compensation in this report has been compared to private sector programs, yet unlike the private sector, the military services cannot hire experience into most of their positions, and must rely on "growing" experience. Because we must retain servicemembers at various degrees to keep experience levels right, a retirement and compensation system has to entice a significant portion of servicemembers to make the military a full career to 20 years and beyond. We urge the committee to proceed with caution, find the unanswered questions, and note the challenges we have seen already in the All-Volunteer Force. Errors with adjustment to the retirement system has occurred in the past and it has required Congress to take corrective action.

The current retirement system has also been characterized as an "old system" which hasn't been drastically altered in nearly 70 years. Yet it is a system that ushered us into an All-Volunteer Force, served us in good and bad economic times, through significant personnel downsizing over the past few decades, and certainly has maintained a ready force through 13 years of war with more than 20 years of heavy deployment cycles. We believe there are times that call for bold decisions; but we also believe a primary motivator should be to not harm a system that seems to be working.

Specifically, my comments today will center on Recommendation #1 to "help more servicemembers save for retirement earlier in their careers, leverage the retention power of traditional uniformed services retirement, and give the Services greater flexibility to retain quality people in demanding career fields by implementing a modernized retirement system." I will also include Recommendation #3, to "promote the financial literacy of servicemembers by implementing a more robust financial and health benefit training program," in my comments as a related measure.

While we are intrigued with the intent of these recommendations, we have serious concerns about some details of the proposals. Our members have told us the current retirement system has served us well since the initiation of the All-Volunteer Force in 1973. Our nation does not currently have an overall military recruiting and re-

tention problem. In fact, such problems have usually not cropped up unless there is tinkering with their pay and benefit programs. Therefore, we will be interested in further examining the justification to change an untested system that may or may not have the same consistently positive results. The commission cited many private sector programs in comparison, but as previously stated, there are stark differences between the private sector and military service. Changes made today could take 10 or more years to reveal their success or failure. There is no better example of this than the passage The Military Reform Act of 1986 (better known as "Redux") which triggered severe retention issues in the mid to late 1990s requiring congressional intervention to stop them in 1999.

First, we will be interested in viewing the details of the specific surveys that resulted in these recommendations. As you know, enlisted servicemembers represent about 83 percent of the overall force. As such, decisions made in regard to the military retirement program will primarily impact enlisted members and their families. Based on the views of our members, our understanding has been that the vast majority of them are content with the current system that provides them with a solid retirement benefit based on the extraordinary career they serve over the long term—without their need to constantly monitor and participate in the details of the growth and development of the retirement benefits they will eventually receive. So our first major interest would be to examine the specific survey results received from the large majority of servicemembers who are current and past noncommissioned members.

A second concern that we believe is an important one is that the recommendations may well encourage early departure from the military—rather than promoting a full, 20-year service career. We believe most involved in these recommendations recognize the need for a strong career force to ensure continuity, training, mentorship, and leadership. As you know, our military members have certainly been stressed during the past decade—with repeated deployments, persistent separations from families, increased group and individual taskings due to cuts in our military forces, and the unique challenges of their military operations and tactics of the particular enemies they are facing. It would seem the recommended changes provide servicemembers with greater incentives to leave at critical career points. We would ask this committee to take a close look at the choices offered in relation to the stresses on military members and their families, and if the changes might set in motion future retention problems.

Next, in looking at the numbers, it is apparent those who would choose to serve beyond 20 years under the recommended system would derive less of a financial benefit than they do under the current system. We believe it is important to always keep in mind the possibility that the decisions this committee makes in regard to military retirement changes could backfire. The recommended changes could entice members who currently would choose to serve full careers to instead opt to leave military service in order to start different career paths in civilian industry that do not have the career stresses and unique challenges of military life. Again, we would be moving to an untested system to replace one that is already working, potentially leaving a hollow force without critical experience and leadership at certain levels. Accordingly, we challenge this committee to make its decisions to call for change—only if you are very confident that no unnecessary risks to the maintenance of the All-Volunteer Force will be set in motion.

Additionally, the recommended system would only provide government matching of the thrift saving aspect of the blended program up to the 20-year point. It would seem to us that this, in itself, would encourage those members who reach 20 years of service to find another career outside of military service to continue to gain matched contributions and make the most of a defined compensation system. Again, we would suggest that this aspect of the recommended program—of encouraging departure at critical career points—should be closely scrutinized.

Concerning the thrift savings portion of the blended retirement system, we would make a few observations.

First, a greater management burden and risk would be shifted from the employer (the Department of Defense) to the employees (servicemembers)—who are already very occupied in carrying out their military duties, often overseas, in spartan conditions, and at great risk. Furthermore, many of our servicemembers lack the knowledge to fully understand how to manage the investment funds they will be expected to use under this proposal.

Second, the recommended blended retirement system should first include a program to promote and provide for financial literacy training, such as has been recommend in this report. Having worked during my active duty years as an Air Force First Sergeant and in later years with the Office of Servicemember Affairs of the Consumer Financial Protection Bureau, I can personally attest to the specific finan-

cial capabilities and challenges of servicemembers—and several of the "traps" they can fall into. While any such training would be commendable, one would have to take a close look at the logistics, funding, and practical applications of this training. Some very important questions would include these:

- Would the financial education training program be enthusiastically funded by DOD, or would it be a prime, first-in-line target for future spending cuts—as are some other military personnel programs?
- Would it be carried out as a part-time, additional duty (as many programs in the military tend to be), or would it be taught by a dedicated team of professional financial counselors?
- Will financial counseling be provided early on, before Basic Military Training to ensure these servicemembers fully understand the system they are about to enter?
- How large would this financial training force be? Would it be adequate to provide counseling when needed at all military locations?
- Would this program include family financial training/planning as well—considering that participation of a spouse is important when making career decisions?
- Who will review the curriculum of such training outside of those facing budgetary pressures?
- Will the recommended, blended system be placing those who are simply financially illiterate and/or unlikely to grasp the full breadth of the training at a career disadvantage? Remember we are dealing with military members of various capabilities, aptitudes, and educational backgrounds.
- Would such a training effort leverage already-existing, very successful agencies and programs such as those provided by the Consumer Financial Protection Bureau?

Mr. Chairman, AFSA has worked for many years with members of the overall Armed Services Committees and its subcommittees—this subcommittee in particular, since we primarily focus on quality-of-life programs. Together, we have worked on and achieved many things that have greatly benefited the force and which have made the All-Volunteer Force effort successful.

We have watched you adjust military pay in the past, gauged the results, and made further adjustments when warranted to get it "just right." Similarly, during the past 40 years of the All-Volunteer Force, we have seen a few minor adjustments to the military retirement system.

However, in the coming months this committee will exercise its collective wisdom to decide if a major departure from the currently working system is justified and appropriate. We do not envy you in that regard, and we fully recognize the burden of leadership you have chosen to carry out on behalf of this Nation.

As this committee moves forward in looking at the range of recommendations made by the Commission, on behalf of this association and the 110,000 enlisted members we represent, we pledge our cooperation, participation, and support of your effort to make the right decisions for the great men and women who serve to protect and defend the interests of the American people.

Senator GILLIBRAND. Mr. Jones?

STATEMENT OF RICHARD A. JONES, LEGISLATIVE DIRECTOR, NATIONAL ASSOCIATION FOR UNIFORMED SERVICES

Mr. JONES. Mr. Chairman, Madam Ranking Member, Senator King, the National Association for Uniformed Services appreciates the opportunity to testify and appreciates the Military Compensation and Retirement Modernization Commission (MCRMC) commissioners' decision to hold harmless the current retirement system for those currently retired and for those currently serving. We also applaud MCRMC's recommendation for no change in TRICARE for Life.

The MCRMC report, however, has some questions in it. What we question is the pay-for of the TSP innovation. The MCRMC report makes a simple but questionable change in the retirement system. It takes the current system as it stands with 20-year program and voluntary TSP and adds government participation with a 1 percent

automatic TSP contribution and matching contributions up to 5 percent.

There is one more aspect. It drops the retirement multiplier 20 percent, cutting it two times for the years of service from 2.5. The result, the retirement check would be 20 percent less under the proposed plan, 20 percent less.

Of course, one of the key questions about the commission's report is why is it necessary to shave the 20-year program in order to enhance the system for those who leave early?

In recent past testimony, we have heard principal Defense Department officials tell us the current military retirement system is neither unaffordable nor spiraling out of control, remaining a relatively constant percentage of pay over time.

Since issuance of the report a little less than 2 weeks ago, the National Association for Uniformed Services has already heard a barrage of critical comments. One said, "I depended on that retirement check when I transitioned to civilian life." Another member said, "You are better off being a policeman, a fireman." And, "The blended plan requires servicemembers to actually pay into the account. Basically, that's a pay cut of 3 percent."

Another questionable element of the package recommends stopping the government's automatic and matching TSP contributions at the 20-year mark. The retirement package is a critical incentive to stay in service beyond 20 years.

There are many valid reasons. It generally takes 15 to 20 years to train and prepare the next generation of infantry battalion commanders, of submarine captains. We need to create these experienced leaders.

The National Association for Uniformed Services agrees that young men and women who serve three, four, or five deployments would be better off if offered something after honorable service other than a pink slip and the door. We also see, however, that the current 20-year cliff retirement program has proven its mettle.

It works, through nearly 70 years. It is not spiraling out of control. It remains a powerful pull for career service and keeping experience at hand.

It may be prudent to upgrade the TSP account. However, it should not come as a result of cutbacks in the military career incentive package.

Thank you for the opportunity to testify. I appreciate it.

[The prepared statement of Mr. Jones follows:]

PREPARED STATEMENT BY THE NATIONAL ASSOCIATION FOR UNIFORMED SERVICES

Chairman Graham, Ranking Member Gillibrand, and members of the subcommittee:

The National Association for Uniformed Services (NAUS) honors and applauds the Military Compensation and Retirement Modernization Commission (MCRMC) Commissioner's decision to hold fast the moral contract for those who have retired and for those currently serving on a career path. The retirement system is not disturbed for those currently retired or those currently serving. Also we applaud MCRMC recommendation for no change in TRICARE for Life. It, too, is held in honor.

Of course, the NAUS welcomes improvement. We ask, however, that any proposed change to the present retirement system do no harm. The fact that our All-Volunteer Force (AVF) is without peer, the best in the world, has been proven over the past more than 40 years and clearly demonstrated at most other times. The current retirement system has helped sustain the AVF, and we should be guarded not to jeopardize this achievement.

The NAUS sees nothing wrong with servicemembers being provided a government match to their Thrift Savings Plan (TSP) choice. It might be a good idea to provide a matching TSP to strengthen the compensation system for those servicemembers who leave the force prior to a full career.

At present, more than 40 percent of the Force already participates in the TSP program without government participation. Adding a government contribution could make it more attractive. However, we question the "pay for" of this innovation.

The MCRMC report makes a simple but questionable change in the retirement program. In essence, it takes the current system as it stands—a 20-year program with an available TSP—and adds government participation. The government would make a 1 percent automatic TSP contribution and match contributions up to 5 percent. There one more aspect, the report calls for a 20 percent reduction in the retirement multiplier—dropping it to 2.0 from 2.5.

The result is that a servicemember with a 20-year career would receive a retirement check amounting to 40 percent of his final basic pay, 20 percent less than under the current plan.

Of course, one of the key questions about the Commission's report is why reduce the 20-year calculation. Is it necessary to shave the 20-year program in order to enhance the system for those who leave early?

In recent past testimony, Dr. Jo Ann Rooney, principal deputy under-secretary of Defense for Personnel and Readiness, said the current military retirement system is "neither unaffordable, nor spiraling out of control, as some would contend" noting that retirement costs as a percentage of pay are projected to be relatively constant over time.

There are many valid reasons to keep the current retirement system. It generally takes 15 to 20 years to generate the next generation of infantry battalion commanders and submarine captains. As a result, the department must ensure that the military retirement policy promotes greater retention and longer careers necessary to create these experienced leaders. A civilianized system with the introduction of investment risk many not be the right approach for the military.

Since issuance of the report less than 2 weeks, the NAUS has already heard from a number of members and supporters about this proposal.

Let me run down a few of their comments:

- The difference is this . . . with the 20-year deal, you knew what to expect. Very black and white. With this "new deal," there are many "what ifs" that can change depending who is running the country . . . people like stability on issues like this.'
- I don't know what I would have done during my transition to civilian life without my immediate retirement pay after 20 years.
- They're basing that 401(k) off past performance. What happens if you retire on a down market, or if the market goes total bust?
- Under the new proposed retirement you're better off being a policeman or firefighter.
- That chart of theirs presumes that the E–7 under the current system is not saving or investing or deferring anything . . . total hogwash.
- Nothing is stopping the servicemember from contributing to the TSP right now . . . other than the fact that it would make the difference in the charts not as great.
- Let's not forget another assumption . . . that the future holds no more economic crashes to wipe out the 401 accounts again.
- The blended plan requires servicemembers to actually pay into the account. Basically this cuts pay by 3 percent.

Another questionable element of the package recommends stopping the government's automatic and matching TSP contributions at the 20 year mark. MCRMC officials call this a force shaping item while simultaneously recognizing the heightened costs of sustaining the contribution beyond 20 years.

In 2006–2007, Congress recognized the importance of retirement benefit as an incentive to stay in service. It thoughtfully changed retirement rules to allow the multiplier to run beyond 30 years for senior enlisted and senior officers. The change was an incentive to encourage these senior people to stick around.

In that period, 4,000 people with greater than 30 years of service stayed—3,000 were senior enlisted and 1,000 were senior officers. As retired Navy Admiral and Commissioner Edmund Giambastiani said, "Having a Command Sergeant Major who's been in for 36 years who will stay for another four really makes a huge difference—tremendous amount of experience."

The congressional decision to retain experience during wartime made a difference. Congress rightly concluded retention was more affordable, in lives and money, than retraining.

There remain many questions and considerations—the analysis of this report has only just begun. The NAUS agrees, however, that we would be better off if the young men and women who served three, four and five deployments were offered something after honorable service other than a pink-slip and the door.

Government participation in the currently available TSP account could be helpful in advancing the present 40 percent servicemember participation rate. These servicemembers voluntarily contribute without any kind of automatic government contribution.

The NAUS recognizes, however, that all investing for retirement is subject to risk, including the possible loss of the money you invest. To ensure an adequate retirement, conservative financial advisors believe savings rates need to be between 12 percent and 15 percent of income (including an employer match). That would require a set aside of upwards of 7 percent of present disposable pay.

Investment is often times compared to a yo-yo. The market goes up and down. Historically, however, the market has acted more like a man walking up hill with a yo-yo. It still goes up and down but over time it runs generally uphill, and may it always be so. But the future is uncertain and one must remember that past performance is no guarantee of future results.

We still remember the severity of 2008 and the years it took to regain the loss after the crisis of that period. We are concerned that altering the certainty of a regular retirement check at 50 percent of base pay may be a disincentive for mid-level officers and top enlisted to continue their careers.

The NAUS applauds Congress for taking action over the 13 years of war to maintain the powerful pull of the 20-year retirement system, to raise pay, enhance health benefits and enact the Post-9/11 GI Bill. If you had not taken these actions, it is questionable as to whether we would have the military strength we have today.

In recent testimony before Congress, Commissioner and former Senator Bob Kerry said, "I came into this commission believing that it's likely we have a real problem with pay and benefits."

But, Commissioner Kerry concluded, "It would be unfair to identify military retirement as the big problem because it isn't. The big problem is Social Security and Medicare, so it seems to me, to address military retirement without going after Social Security and Medicare is basically saying we're going to balance the budget on the backs of our military retirees. I think that it would be a wrong thing to do and send a terrible signal."

Many pundits and other so-called experts around the beltway continually write critically about military pay and benefits. As John Finkel writes in The Good Soldier, if some of these folks could get out from behind their desks "into the lead Humvee and go out on Route Predator or Berm Road, they could experience, as our troops do, the full 'pucker' factor. They could experience it the next day, too, and the day after that and then maybe, they could go back on the job and tell the reality of service—at least we'd hear the truth."

Defending our national security is a tough job. It is arduous service and demands enormous sacrifice that many Americans are unwilling to commit. Clearly, we need to assure quality recruitment and retention, and we need to retain experienced career personnel. NAUS has concerns that this proposal, which mirrors private sector models, carries the incentives to assure an appropriate retention outcome.

Over the years the current 20-year cliff retirement program has proven its mettle. It works. Though the military retirement system is nearly 70 years old, it is not spiraling out of control. While it may be prudent to upgrade the TSP account, it must not come as a result of cutbacks in the military career incentive package. The strength of our national security depends mainly on three pillars; a vibrant economy, a strong defense and a faith in the Nation and support for those who serve.

The question regarding the Military Compensation and Retirement Compensation report is whether faith has been broken. Once the servicemember's appreciation of the compensation or care they are given is broken, no matter what "bells and whistles," it's going to be difficult to recruit people to serve or to retain their skills.

ON THE OTHER HAND, SEQUESTRATION IS A PROBLEM

Sequestration, however, is a problem. We were told sequestration would never happen. But here we are in year three facing the blunt and irresponsible approach to taming our annual deficits and reining in the enormous debt we and future generations face.

Under sequestration, defense, which accounts for less than 15 percent of the budget, is forced to take 50 percent of sequester cuts. It is disproportional by any measure of understanding and incredibly detrimental to our national security.

The results of these cuts have already been devastating to our national security. The Air Force is approaching the smallest it has been since 1946; the Navy is approaching a historic low level of ships; the Army is on its way to the lowest troop level since before World War II; and the Marine Corps will be down two divisions.

Sequestration is a blunt instrument. It was wrong when the President proposed it; it was wrong when Congress accepted it; it was wrong when enacted, wrong when signed; and wrong when implemented.

The NAUS implores you to end defense sequestration.

Senator GILLIBRAND. Thank you, Mr. Jones.

Mr. Nicholson?

STATEMENT OF ALEXANDER NICHOLSON, LEGISLATIVE DIRECTOR, IRAQ AND AFGHANISTAN VETERANS OF AMERICA

Mr. NICHOLSON. Thank you, Ranking Member Gillibrand. Even though he stepped out, I have to say, as a native South Carolinian and representing an organization headquartered in New York, it is a particular honor to testify for this particular combination of chairman and ranking member.

On behalf of Iraq and Afghanistan Veterans of America (IAVA) and our nearly 300,000 members and supporters, we appreciate the opportunity to share with you our views on the final report of the Military Compensation and Retirement Modernization Commission.

To give you the bottom line upfront on the commission's recommendations from our perspective, we see them as somewhat of a mixed bag. Some of the recommendations align well with the recommendations that we and other military and veterans organizations have been advocating for years while others appear to be bold new steps in a positive direction that merits serious consideration. However, a few of the other recommendations raise questions and concerns for IAVA and our members.

But first, let me talk about some of our areas of agreement. We are in strong alignment with the commission on the need for increased DOD–VA cooperation up to and including sharing systems and information. The process of transitioning from Active Duty to veteran status is still disjointed. Operation Iraqi Freedom/Operation Enduring Freedom veterans often report gaps in care and assistance when leaving DOD and entering the VA system.

Another area in which we strongly agree with the commission is on the urgent need for increased financial literacy and benefits stewardship education for servicemembers and military families, especially if you are going to change the dynamic and require troops to take more personal responsibility for their part of their own benefits package outcomes. We see the need for this not only in countless examples of predatory lending targeting servicemembers but also predatory for-profit educational institutions going after servicemembers' and veterans' valuable post-9/11 G.I. Bill benefits.

Second, IAVA is interested in taking a deeper dive into the commission's recommendations regarding alternate retirement plan packages. In our 2014 annual survey of our members, 36 percent of respondents felt that the military retirement system should be reformed. Of those respondents, when allowed to select multiple options, 67 percent favored a 401(k) style benefit for noncareerists, 33

percent favored increasing the overall value of the current retirement benefits, and 59 percent favored a partial early retirement benefit for 10 or 15 years of service.

To many of IAVA members, who are by definition combat veterans, it seems fundamentally unfair that one can serve for 10 or 12 years with three, four, or five more deployments and leave with absolutely no retirement benefit at all, yet a careerist who never deployed could be entitled to a full retirement package. Therefore, IAVA is open to reforms that would amend the current system to allow noncareer troops the opportunity to receive some retirement benefits.

Lastly, IAVA has some serious concerns and questions with some of the commission's recommendations regarding reductions in post-9/11 G.I. Bill benefits. We will continue to analyze these numerous comprehensive recommendations the commission has articulated before developing final views. However, fundamental reductions in post-9/11 G.I. Bill benefits, even for dependents, raise red flags for IAVA and our members.

We appreciate the opportunity to offer our views on the commission's recommendations and look forward to working with each of you and your staff and the committee to improve the lives of servicemembers, veterans, and their families. Thank you.

Senator GILLIBRAND. Thank you.

I will reserve my questions for the end. We will go to Senator King.

Senator KING. Thank you all for your testimony. It is very helpful, and also for your service.

Ms. Holleman, I had to smile when one of the first things you said was the proposals are interesting. In Maine, when somebody says something is "interesting," that means forget it. I sort of get the drift. "Oh, that is interesting."

As you can tell from my prior line of questioning, I am very concerned about the issue of retention and particularly retention beyond 20 years, or retention of those people who have solid service credentials between, say, 12 and 20 years. Talk to me about the cliff vesting of the current system and how you think this would either improve retention or diminish it.

Mr. Frank?

Mr. FRANK. Senator, I came in in 1987. I came in under the REDUX retirement plan. Ten years later, I am working a flight line. I am having a hard time finding a specialist to help me fix my airplane so we can get it in the air, and it is because we had a system in place that people said, you know what, I am not making this a career. We don't have the experience that we need at these particular levels.

So, of course, it was changed. We had the option to go back to the High-3 system as we moved forward. TRICARE, of course, was coming online at that time, again, health care changes.

Fast forward to where we are at now. As the economy gets better and there are less perceived value of a retirement system based on this new system, especially if they are not educated on how to properly invest or the way to go about doing this, you are going to have people—this is almost like REDUX on steroids. It is an easier off-ramp.

You know what? I have some money now that I have socked away. It is even easier for me to depart the Air Force or the services and go out and work for this company that has offered me a great job. We would salute them smartly and say thanks for your service. But we could very well put ourselves in a position to have problems with those key components.

They talk about, hey, if you go to 12 years, it will get you to 16, and 16 will get you to 20. But under this new system, I don't know.

Senator KING. But all of you said in one way, shape, or form the current system is working, why change it? My understanding is it is working great for people to stay for 20 years, and it is not working at all for people who stay 12 or 13 or 8. They could have three or four deployments and end up with zip in terms of retirement benefits.

How is that fair or appropriate? Don't we have to do something about that? Isn't this proposal one of the only real options for dealing with that problem?

You talked about this, from the point of view of your groups.

Mr. NICHOLSON. Sure, I think that we would absolutely agree that something has to be done to give some sort of benefit to those who are noncareerists. I think, however, we would agree with our VSO and MSO colleagues that we don't want to also do that at the expense of those who are careerists.

It is not necessarily a zero-sum game, or we don't have to look at it that way. We don't want to necessarily support reducing their benefits.

Senator KING. But I think this is important. The way I read the math, you are not reducing their benefits. They are getting 40 percent instead of 50 percent, but the other 10 percent, if there is any kind of decent compounding with the contribution and the match.

By the way, somebody characterized it as a 3 percent pay cut. Well, you can look at it that way, but it is voluntary, and then government is going to match it on the other side. That is 3 percent. I mean, it works out both ways.

But you are going to end up with the same or more money, aren't you? I mean, it is not accurate to say that you're cutting people's retirement benefits. If you stay 20 years and get the 40 percent and the 401(k), what it looks like, don't you end up in the same place or better?

Mr. JONES. At what age does one retire? Is it 40, 42? At what age does one receive the TSP? So for that period of time, between your age of retirement and the acceptance of the TSP 401(k) program, you have benefits that are reduced 20 percent through that period. That is practically where a lot of the money comes from that it is being saved in this program. Do you follow?

I retire at age 42, and I get 40 percent instead of 50 percent under the current program in my retirement check. I wait until I am 65 or 60 to receive TSP. That is where you begin to make an equivalence.

Senator KING. So that is the difference that you see as the disadvantage of this program to somebody who stays longer than 20 years.

Mr. JONES. Well, the other thing that you mentioned earlier, that a lot of the senior officials who are in the military stay beyond 20,

20 to 28. Between 20 and 28, there is no TSP match. There is no contribution of 1 percent for those folks.

So when you speak about retention, Congress decided in 2007 that they needed that experience. So what they did was to allow retirement benefits to continue beyond 30 years. I think two members of the panel stayed with the military for that period of time beyond 30 years.

That experience counted. It saved not only money that might have been required for training, but it saved lives through that experience. So that was a very important thing that Congress did in 2007.

Senator KING. What is your reaction to the problem of the 12-year veteran who has served three or four deployments and ends up with no retirement benefits whatsoever?

Mr. JONES. Well, I thought I made it clear in my statement and I will do it again, the deal is that we like that part. We think there should be some TSP agreement, if they can make a contribution. Forty percent of folks voluntarily get into that program.

Evidently, there are 17 percent of people who go on for retirement. If every retired person, 17 percent of the force, was part of that voluntary 40 percent, that still would leave 23 percent of the folks in service who are not making a career in TSP.

So that is an acceptable program. If you can enhance it, it will be like magic. People would love to come in.

Senator KING. So you would do the TSP but not the cut from 50 to 40.

Mr. JONES. Absolutely. I am not at a negotiation table here, but there could be some program like that, and it would enhance that benefit for particularly those in this drawdown. I mean, we are pulling people out of the combat zones and giving them the pink slips.

Senator KING. That is going to be a real problem in the next several years.

I hope you all can help us get rid of the sequester, please. Can we all agree that that is something we need to work on together?

Mr. JONES. The final page of testimony is that that is the real problem, the sequester. That is what we would love to see, the end of that sequester for defense.

As was mentioned earlier by the chairman, there is a substantial reduction in Navy ships, in the force for the Air Force, right down the line. This is a very dangerous time, and there are problems all around the world, hotspots from Iraq to the Japanese sea.

Senator KING. Well, I hope, as part of your communications mission, you will not only be reacting to this issue, but also communicate to your Representatives and your Members the importance of dealing with sequester, because that is a huge problem. It is going to cost American lives.

Thank you.

Ms. PARKE HOLLEMAN. May I say, quickly, we are. We are all talking about sequester. But when you are analyzing the proposed package, I would ask that you analyze it at 1 percent, just the 1 percent, all the way up to the 5 percent matching. I would ask that you do both, because, as Senator Gillibrand said, there are many, particularly enlisted young ranks, who cannot afford or at least,

certainly, don't feel they can afford a 3 percent cut in their pay. There are people with real financial problems in our young enlisted ranks. The 3 percent or the 5 percent matching could be could really feel like a bridge too far for them.

So when you are looking at that, I would be grateful if you looked at various, not just the 5 plus 1, but the 3 and the 1 by itself.

Senator KING. Thank you.

Ms. PARKE HOLLEMAN. Thank you.

Senator KING. Mr. Chairman?

Senator GRAHAM [presiding]. Senator Tillis?

Senator TILLIS. Thank you all for being here. I thank you for your service and your continued service.

A couple questions. I mean, first, would you all agree that giving more servicemembers more retirement benefits is a good thing?

Mr. JONES. It is good thing.

Senator TILLIS. That we do have a problem with those men and women who are serving who are not going the full 20 years, that we owe it to them to provide them with something more than they are getting today?

Mr. JONES. We could improve that.

Senator TILLIS. The next question I had, is this report is fairly fresh. And I see Mr. Frank, I know you have a copy of the report before you, I believe. It looks like it is tabbed in the first 15 or 20 pages. My guess is, like us, you haven't been able to thoroughly exhaust going through it, modeling it, and reviewing all the recommendations.

Mr. FRANK. That is correct.

Senator TILLIS. So you have to spend some time doing that, coming up with use cases and really understanding how this affects your members and the stakeholders who are referred to. I am going through that same process.

Ms. Holleman, you made a comment that reminded me of a discussion I literally just had yesterday with one of my legislative staff who was talking about the TSP and the matching. This person, college educated, I think he actually even did some finance studies in school, was questioning the wisdom of taking advantage of the math. I had to sit down with him like I did with my daughter and my son, when they first had to do that.

I would say that it may look to a younger person that that is insurmountable. But I think if we really educate them through financial literacy, they will realize it will be a great long-term benefit to them.

That is one of the reasons I am excited one of the recommendations is increased investment in financial literacy, so that they can make informed decisions. And in some cases perhaps the 1 percent or 3 percent or 3 percent or 5 percent isn't achievable. But I hope for many it will be, because it benefits them long term.

I guess my question goes back to the feedback that you are getting. Is the feedback that you are getting from your members now more based on a fear of the unknown or documented examples of where this would be less preferable than the status quo?

Mr. FRANK. I would tell you, Senator, from our association that the feedback that we have is significantly different than what they

put on a chart. So 80 percent of anybody in favor of anything is suspect sometimes. So I don't know that I ever found that in the Air Force, that anybody was ever in favor 80 percent.

So again, this is early returns, but it is statistically significant that now that they see the whole picture, and I know how the question kind of led out with the survey was. Would you like this, would you like this, and then they put it together with people who are good with those kind of things. But the reality is, now that people see it in context, it is, "Oh, wait a minute, I am not sure."

I think, to Chairman Graham's point earlier, they have been in the Service a while. "I am not sure that this necessarily what I like to do."

But they are also looking at other suggestions in there, in the particular report. But to that one, at least this is a known safe factor for me.

Senator TILLIS. Mr. Frank, I think you touched on an important point. And as I said earlier about Chairman Graham, he is in a much more advanced state, shall we say, in terms of his career progression, so it probably isn't going to make sense for him, which has proven to be the case in a number of other cases. We are talking about people being an opt-in into the other plan. Silence is consent with the current plan.

So just understanding we have that has a level set. This is not changing the deal for those who came in with this option.

We need to go through a process here of education. But I would really encourage you, as you are going through and forming an opinion about this, this is reminiscent of a few of the cycles that I have done before I entered public service and private sector work.

I agree with your opening comment. There is no job like the job of serving in the U.S. Armed Forces. But I do believe that this program is something that could potentially provide some balance. But what we need to do is provide the resources so that the people who ultimately give you feedback, they cannot possibly know the use cases that apply to that, in the same way that they may not completely understand the compounding opportunity that they could have if they hopped into the plan.

So I think that we have to do a lot of work so that we can get feedback and identify any outliers where maybe there are some things that would have. to be changed, if we were to move forward with this plan.

So I hope we can get your commitment and make sure that we provide assistance. I know that my staff will be pouring through this plan, and that we'll give you the information so you can model it, because I do believe the adoption rate is probably not too far off from what was ultimately seen in large programs done in, say, a 300,000-person organization that I have had some exposure with.

So just keep your mind open. I think you should always be vigilant and do exactly what you are doing here and advocate, but keep your mind open and figure out what we can do to provide you with information to do that modeling.

I do have some things that are probably—you made positive comments on I think the recommendation on financial literacy. You would generally agree that is a good thing, not only in terms of

making a decision about this retirement plan but for long-term financial planning.

Ms. PARKE HOLLEMAN. Absolutely.

Mr. FRANK. Senator, and to add to that, I think you have to get to them early, before basic training.

Senator TILLIS. Absolutely. In fact, we are doing that in high school down in North Carolina now as a part of financial literacy curriculum requirements. I agree with you.

Do you all agree that on other areas, outside of the retirement plan, that SNAP provides more robust benefits than FSSA?

Ms. PARKE HOLLEMAN. I do, yes, Your Honor. [Laughter.]

Senator TILLIS. You can call me Thom.

Ms. PARKE HOLLEMAN. Thank you kindly.

Mr. FRANK. Senator, in my experience as a first sergeant, the FSSA was actually to get away from the stigma of food stamps. It just was a pain in the rump, I will say, to work through that. So SNAP probably would be a better option.

Ms. PARKE HOLLEMAN. There are only a few hundred people in that program, because of the problems. Since the commission recommended that it continue overseas, then we are very much for that recommendation.

Senator TILLIS. Thank you. Any other comments?

Mr. JONES. It is a rational proposal.

Senator TILLIS. Okay.

Do you all also believe that the G.I. Bill is a good incentive for retention?

Mr. FRANK. Certainly.

Mr. JONES. It is for recruitment, the G.I. Bill is a tremendous recruitment incentive. Retention was modified and well done by the current chairman and also the current chairman of the full committee. We supported that when it was presented.

Mr. FRANK. Its transferability is a retention tool. I am concerned about the proposed change a little bit, but definitely a tool.

Senator TILLIS. And, Senator Graham, did I hear you were working on grandchildren?

Senator GRAHAM. Not mine, but others'.

If I did the Strom thing, it's possible, but I better get started.

[Laughter.]

Senator TILLIS. If I could just ask a couple more questions, I know my time has expired. These are things that I didn't get to the other panel, and that was if you had all dug in long enough to form any opinions about the recommendations on the national student identifier, benefits or concerns?

Mr. NICHOLSON. That has been on the lower end of our priority list.

Senator TILLIS. How about space available travel?

Mr. NICHOLSON. That seems like a good one.

Mr. JONES. Excellent idea.

Senator TILLIS. And do you think it is going to have any effect on availability for retirees? I didn't get a chance to ask that of the panel members.

Mr. FRANK. Well, Senator, as a matter of fact, I had a conversation with a couple folks the other day on this very topic, and that is exactly what they brought up, for retirees, it may take some

space there. I think we have to look at this a lot further. Off-the-cuff, it looks like a great thing. If space is available, allow them to do that. But it might have an impact.

Senator TILLIS. I was going to submit that as a follow-up question to the first panel. But I want to let you all know that this is something that is very important to me. I come from North Carolina. We have a couple people in uniform down there, and this is a very, very important matter to me. I welcome you to come to my office and discuss your concerns with my staff and with me. Thank you.

Mr. NICHOLSON. Senator Tillis, could add one more thing to your earlier question? On the issue of member feedback, the numbers I cited earlier, the 36 percent of respondents who were in favor of reforming the retirement system, we do one of the largest annual service surveys of Iraq and Afghanistan veterans in the country. At the time we did our 2014 survey, we of course didn't know what the proposals were going to be. We tried to formulate questions to get at this issue in advance, having, of course, talked to the commissioners about where they were going with this.

We intend to survey more specifically in our 2015 survey, which we will deploy in a couple weeks, on the specific recommendations.

But I would just think that one of the biggest things we have been seeing, because in addition to our quantitative surveys, I mean, a lot of our feedback is qualitative. It is through social media. The biggest thing I have been seeing is what you mentioned earlier, the fear of the unknown. A lot of people are under the mistaken impression, still, no matter how many times we say, you all say, and the commissioners say that this not going to be impact those who are currently in or currently retired, the biggest fear that we see seems to be that it is. They don't believe it or they're not hearing that, for some reason.

So if the methodology of the commission in arriving at their 80 percent figure is to have explained what the system would be and then gauge a reaction, I don't find it beyond the scope the reality that the 80 percent number could be accurate. But the biggest issue I think not only in gathering accurate data, but in terms of P.R. for the commission itself moving forward, and any changes that might be pursued and proposed, is clarifying and amplifying that data point that this isn't going to impact those who are currently in the system.

Senator TILLIS. Mr. Nicholson, that is a great point. And just to reinforce it, when I say, if you like your plan, you can keep it, when I hear the commission say, at repeated requests from me and Senator Graham that that is the case, that will be an area that we'll be working on to confirm, because I think it is critically important. You don't break a promise that you made to the people who entered with that expectation. I think that is critically important.

The other thing that I will send as a follow-up to the commission is so that you can provide the kind of tools—I don't know what the implementation strategy would be here, and the stakeholder engagement strategy would be. But it almost, certainly, needs to use the kind of tools that are used in the private sector to say, if you are a soldier at this point in time and you model out the financial choices that will be a part of financial literacy, I would presume to

give them that informed decision about what this exactly means to them, that this decision makes, so that we can really begin to identify the people to become a part of that potentially 80 percent or 60 percent, whatever that number is, and the ones who may have legitimate concern in the plan design that we need to address. We will be pursuing that as a part of our due diligence.

Thank you, all.

Mr. JONES. Senator, one thing on the plan, that you can keep it. There is a provision in the recommendations that allows the Secretary to change the 20-year period for career either to more years or to fewer years. So if you can keep your plan, the Secretary may change it.

Senator GRAHAM. Thank you. Well, we will fix that, if that is true.

So the bottom line is you have to look at it this way. The chairman of this committee is a military retiree. I am not going to go to John McCain and say we are going to take your retirement away. I'll let someone else do that. We're not. That wouldn't be fair. So just chill out. Nobody's going to mess with something you've already earned.

If I don't get court-martialed, I'm retiring in August after 33 years. I'm not going to screw with my own retirement. If nothing else, you can believe that.

I'm not going to put people in the position who have served, ready to retire, that they are going to lose anything. It is not fair. If you are on Active Duty today and this is your first day of Active Duty, you can keep the current system until we pass a bill, if we ever do, because to do otherwise is not fair.

It is not fair to kick somebody out at 12 at no fault of their own, because we are reducing the force and Congress is stupid to do sequestration. That is your guys, the Iraq and Afghan vets. We want to do right by them, and that means a new benefit that doesn't exist today. We want a sustainable, generous benefit.

Here is my belief, that if you are going to enlist in the military the day after we reform the system, you are going to know on day one that the defined benefit plan is 40 percent. If that is not a good deal for you, don't join. Go somewhere else. If you are halfway decent at managing your money, you'll make up the 10 percent.

But, Ms. Holleman, we are going to make sure that the 1 percent is modeled out because a lot of people live paycheck to paycheck. So I want to take the most conservative estimate of 1 percent and see how much of the 10 percent that makes up.

From 20 to 30, I am not worried about that group because at 20, you are basically working for half pay anyway. You just obviously like your job, because you could quit and get half your salary and go do something else. So the reason people stay past 20 is they just like what they do, and they want to get promoted and maybe increase their retirement. So I am not really worried about that so much, Mr. Jones.

But what I am worried about is, does the math add up? It sounds like a good deal, but let's test it. And if you need more time to run the numbers, you are going to get it, because this is a transformational change. And we want to do it thoughtfully.

If I were a young person coming into the military, let's say I had been in 4 years, I would take the blended plan in a heartbeat. You are just going to have more. But if I am 16, 17 years in, I'm sticking with what I have. It makes no sense.

So I bet you that 19 percent reflects people who are close to 20, and that 80 percent, whether it is accurate or not, probably reflects people under 10.

When you look at the G.I. Bill, it rewards people to stay past 12 by transferring their benefits to their kids. That is a big deal. That is one less expense in retirement, paying for your kids' college. Under the current plan that they are proposing, you get a bonus to stay in, an incentive to stay in, so that helps retention. I think those two things make sense.

The idea that you are paying for this on the back of the people past 20, I don't really buy that. But I want to know more about it, because you can't create a new benefit helping the 12-year guy, the 8-year guy, without something giving. And I don't want to punish somebody because you are helping somebody else.

But I think this modernization effort of a blended plan will serve the country well. A 40 percent defined-benefit is a pretty good deal. There are not many deals like that in society today.

But what we are asking people to do is an incredible thing, and that is to get shot or get killed. So I am going to make sure that you get a good deal. If it is below 20 percent cost share, it will be because I think you have earned a discount when it comes to health care.

So please be mindful that this committee wants to embrace modernization, but it won't be punitive. But if it does save money to make the system more sustainable, that is a good thing, because we are $17 trillion, $18 trillion in debt and we ought to be looking for savings where we can.

So I will shut up now and take any final comments.

Mr. FRANK. Chairman Graham, it was a great opportunity to come talk, and we do appreciate the opportunity the extended time to look at this.

To your point, there are only a few marks in here. It is a little beat up, but it is going to get worse. And we would love to spend some time, obviously, discussing it with all of you in the future and help find the way forward.

Senator GRAHAM. We will try to be reasonable and make sure you have a reasonable amount of time. I will be very sensitive to that.

Mr. FRANK. Thank you.

Senator GRAHAM. Thank you all so much for participating and representing your interests very well. Thank you.

The hearing is adjourned.

[Whereupon, at 4:53 p.m., the subcommittee adjourned.]

[Questions for the record with answers supplied follow:]

QUESTIONS SUBMITTED BY SENATOR KIRSTEN E. GILLIBRAND

RETIREMENT

1. Senator GILLIBRAND. Commissioners, the Department of Defense's (DOD) own studies, and those of outside think tanks, seem clear that your average 17–21 year old does not spend a lot of time thinking about the retirement system or what kind

of healthcare the military will give them when they retire 40 years in the future. This seems reasonable since most servicemembers—above 70 percent—only serve one enlistment.

Instead, it seems more likely that young recruits care about cash compensation, housing, and education benefits. The commission undertook an extensive study of these values and preferences. According to the commission's study, does this demographic prefer the hybrid retirement system you recommend here?

Mr. MALDON. Yes, the Commission's survey showed that lower pay grade groups, both enlisted and officer (E1–E4 and O1–O3) generally preferred the blended retirement model. For example, E1–E4 active-duty servicemembers prefer the blended plan by a margin of 60:40.

2. Senator GILLIBRAND. Commissioners, the commission's recommendation is that retirees leaving after 20 years of service have the option to choose a lump-sum in place of all pension payments up through age 67, or to split the difference by getting half of the benefit upfront and the other half spread out in monthly checks. All the options the commission recommends would resume monthly payments to retirees at age 67. How does the commission recommend that DOD calculate that lump sum?

Mr. MALDON. The Commission does not recommend a specific methodology for calculating the lump sum. In general, it is expected that the lump sum would be calculated as the present value of all or a portion of retired pay between retirement and age 67. The present value would be calculated with a selected discount rate, and assuming a level of expected retired pay cost-of-living adjustments (COLAs). However, the Commission recommends that the Secretary of Defense establish policy to calculate lump sums, including discount rates and COLA assumptions.

FINANCIAL LITERACY PROGRAMS

3. Senator GILLIBRAND. Commissioners, currently every branch has different policies on how they provide financial literacy. Would the new proposed program be standardized across the branches or left up to each branch to set their own policies?

Mr. MALDON. The recommendation establishes minimum training timelines that would be standardized across the Services. This minimum standard would ensure a level of commonality for financial literacy training that servicemembers receive. The Services would retain the flexibility to offer additional training to their respective servicemembers.

Minimum training events would be provided during initial training or upon arrival at the first duty station; during leadership and pre- and post-deployment training; at transition points (e.g., Active component to Reserve component, separation, and retirement); at major life events (e.g., marriage, divorce, birth of first child, disabling sickness or condition); and upon request of the individual.

4. Senator GILLIBRAND. Commissioners, the commission report recommends DOD hire outside firms to provide financial literacy training. Currently every branch has a different set of policies on how they provide financial literacy. Does the commission agree that all the branches should have the same financial training provided for their military member?

Mr. MALDON. The recommendation establishes minimum training timelines that would be standardized across the Services. This minimum standard would ensure a level of commonality for financial literacy training that servicemembers receive. The Services would retain the flexibility to offer additional training to their respective servicemembers.

Minimum training events would be provided during initial training or upon arrival at the first duty station; during leadership and pre- and post-deployment training; at transition points (e.g., Active component to Reserve component, separation, and retirement); at major life events (e.g., marriage, divorce, birth of first child, disabling sickness or condition); and upon request of the individual.

5. Senator GILLIBRAND. Commissioners, how are the commission's recommendations different from current financial literacy training in the military?

Mr. MALDON. The Commission's recommendation substantially increases the frequency and content of financial literacy training for servicemembers, as well as provides common minimum training standards for all Services. Based on the 2013 Blue Star Families Annual Lifestyle Survey, only 12 percent of servicemember respondents indicated they were receiving financial education from servicemember training. The Commission's recommended changes to financial literacy training would ensure servicemembers universally received financial literacy training at certain key times

over the course of their military career. Another change would be hiring professional trainers to provide financial literacy training, ensuring that servicemembers are receiving training from certified financial advisors.

DEPARTMENT OF DEFENSE COMMISSARIES AND EXCHANGES

6. Senator GILLIBRAND. Commissioners, in fiscal year 2013, the Defense Commissary Agency reported the average discount for commissary patrons to be 30.5 percent and the exchanges reported savings between 20 and 24 percent. Respondents to the commission's survey indicated that a commissary discount of 10 percent or less offers little to no value. What impact will the commissions' recommendation have on the level of discounts at commissaries and exchanges?

Mr. MALDON. The Commission's recommendation is focused on preserving and improving the benefits delivered to servicemembers and their families through commissaries and exchanges. At the core of this recommendation is a statutory guarantee that food would continue to be sold at cost (plus a 5 percent surcharge) in commissaries. Although just as it is now, no restrictions would be placed on exchange pricing, to remain competitive in the face of increased private-sector competition, the exchanges would need to continue to offer substantial discounts. The nine strategies suggested in the Commission's final report offer the consolidated resale system additional opportunities to reduce costs and increase revenue. These strategies include the following: consolidate and optimize logistics networks, consolidate staffing creating shared services business units, convert some or all of the commissary workforce from APF to NAF employees, expand commissary sales through the introduction of convenience items with variable pricing, aggregate procurement of supplies and services, reduce second destination transportation costs, aggregate and align capital expenditures, expand the Military STAR card to commissaries, and consolidate retail space. Pursuing some or all of these opportunities can increase profits. The additional profits can be used to increase the discount on nonfood items, improve the commissary and exchange facilities, increase Morale, Welfare, and Recreation (MWR) dividends, or reduce the appropriated fund burden. To satisfy the Board of Directors, the Executive Director of the consolidated resale system would need to find the right balance among these competing demands, satisfying the needs of the Military Services and the needs of shoppers. Shoppers would not be satisfied unless they were provided the right goods and services, in a safe and pleasant environment, at an acceptable discount.

7. Senator GILLIBRAND. Commissioners, how does the commission envision maintaining the profits that go to Morale, Welfare and Recreation activities in this new system?

Mr. MALDON. The Commission's recommendation preserves the partial dependency of MWR programs on resale profits. The Commission's Final Report offers multiple ways that the consolidated organization can increase profits through reduced operating costs or increased sales. Through the Board of Directors, the Military Services would determine and direct the best use of those profits, making tradeoffs among the needs of the MWR programs, the benefits of reinvesting in the resale system, and the goal of slowly reducing the burden on taxpayers.

8. Senator GILLIBRAND. Commissioners, has the commission considered allowing veterans, regardless of retirement or duty status to use the Exchanges online? How would this affect the profitability of the Exchanges?

Mr. MALDON. The Commission considered multiple options for expanding the list of authorized patrons, both in exchange facilities and online. The decision to increase the patron base must consider multiple factors, such as estimated profits, concerns over fairness, the likely response from private-sector retailers and their representatives, and the control and management of access. Although it is reasonable to expect some increase in profits, the Commission did not find defensible analysis to quantitatively estimate that increase. Accordingly, no effort was made to assess the objections that may be raised by States, commercial retailers, and other groups regarding substantial expansion in the eligible population of tax-free shoppers.

IMPROVE ACCESS TO CHILDCARE ON MILITARY INSTALLATIONS

9. Senator GILLIBRAND. Commissioners, did the commission look at how the proposed reduction in the force structure would impact the current childcare wait times?

Mr. MALDON. Child care services, demand for those services, and associated wait times can vary substantially from location to location. The data needed to establish a baseline and perform a credible analysis of the effect of force structure reductions at each location was not available.

To address changes in force structure and other variables affecting demand, the Commission instead focused its child care recommendations on standardizing the tools needed to measure demand and minimize the obstacles to satisfying that demand. Upon implementation of these recommendations, the Military Services would be better able to understand and respond to changes in demand, including effects associated with local force reductions.

10. Senator GILLIBRAND. Commissioners, bases have 24 hour operations; why did the commission not make recommendations on how to help military families with childcare during nights and weekends?

Mr. MALDON. The Commission received only a few inputs citing concerns with the availability of military child care outside of normal business hours. Many parents cited the extended hours offered in Child Development Centers (CDCs) as one of the advantages over private-sector alternatives, noting the CDC's willingness to open early to support activities like physical training or stay open late to support extended working schedules.

SAFEGUARD EDUCATION BENEFITS FOR SERVICEMEMBERS

11. Senator GILLIBRAND. Commissioners, many current servicemembers have made decisions about whether to extend their service based on the current G.I. Bill benefits and what they could do for themselves and their families. I am concerned that making changes without a grandfathering process would pull the rug out from under these servicemembers plans. Did the commission look at how many servicemembers would be impacted by the 2017 sunset in your recommendations?

Mr. MALDON. Yes, this is why the Commission recommended sunsetting the living stipend for dependents on July 1, 2017. Doing so would allow time for families to identify alternative methods of paying for room and board if needed.

Using available historical data, the Commission estimated that approximately 400,000 dependents would need to identify alternative methods of paying for room and board. It is important to note that more than 33 percent of children to whom Post-9/11 GI Bill benefits have been transferred are younger than 10 years old, and thousands of these children are infants.

12. Senator GILLIBRAND. Commissioners, did the commission consider alternatives that would allow for greater grandfathering of the current benefits?

Mr. MALDON. Under the Commission's recommendation, retired pay is grandfathered for currently serving servicemembers and retirees. Benefits from the Montgomery GI Bill and REAP are also grandfathered. Several of the Commission's recommendations improve or maintain current benefits (e.g., Commissary savings, financial literacy training, and child care availability) or provide new options without changes to the current benefit (e.g., Survivor Benefit Plan). For these recommendations, grandfathering would not be necessary. It is not feasible to grandfather the current TRICARE program under the Commission's health care recommendation.

TRANSITION TO CIVILIAN LIFE

13. Senator GILLIBRAND. Commissioners, one of the commission's recommendations is focused on strengthening the new Transition GPS program that requires several reports to Congress. What is the commissions' assessment of the current effectiveness of the current Transition GPS program?

Mr. MALDON. Although overall veterans' unemployment has remained lower than that over nonveterans during the last 2 decades, since 2005, veterans age 18 to 24 have consistently had a higher unemployment rate compared to nonveterans. One large company told the Commission that veterans, even those who complete the Transition GPS program, do not necessarily have the networking skills they need to get jobs. Despite the fact that a recent survey showed 44 percent of veterans attend school part- or full-time, the education track of Transition GPS is optional. Assessing the outcomes of the program is difficult because the matrixes needed to do so are incomplete. Veterans may also benefit from more face-to-face interactions with employees at One-Stop Career Centers. Currently, these employees are not required to attend Transition GPS workshops and their participation in veteran-focused job fairs is not monitored or reported.

MILITARY DEPENDENTS EDUCATION

14. Senator GILLIBRAND. Commissioners, the commission has recommended adding military dependent student identifiers to the Elementary and Secondary Education Act (ESEA). What benefit does the commission see from tracking military dependents?

Mr. MALDON. Currently, there is no systematic way to identify issues military students might experience because of the military lifestyle. Tracking information reported about these students through the ESEA data submitted by schools would provide DOD with the means to compare military children against their peers and to identify areas where additional support might be needed to better serve military children in their schooling.

15. Senator GILLIBRAND. Commissioners, does the commission think that more resources will be required to help teachers and administrators be better prepared to meet the needs of military children?

Mr. MALDON. Currently, military children are not identified as such in public school data reported to the Federal Government. Large-scale data specifically pertaining to military children's achievement in school does not exist; therefore, the Commission did not consider if more resources are required to help teachers and administrators be better prepared to meet the needs of military children. The first step is to identify any concerns about military children's schooling by tracking their achievement, and the Commission's recommendation regarding the military student identifier creates a tool for generating data needed to do so.

THE HEALTHCARE RECOMMENDATIONS OF THE MILITARY COMPENSATION AND RETIREMENT MODERNIZATION COMMISSION

WEDNESDAY, FEBRUARY 25, 2015

U.S. SENATE,
SUBCOMMITTEE ON PERSONNEL,
COMMITTEE ON ARMED SERVICES,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:36 p.m. in room SH–216, Hart Senate Office Building, Senator Lindsey Graham (chairman) presiding.

Committee members present: Senators Graham, McCain, Cotton, Tillis, and Gillibrand.

OPENING STATEMENT OF SENATOR LINDSEY GRAHAM, CHAIRMAN

Senator GRAHAM. Hearing come to order. I apologize for being late.

We have a vote at 2:45 p.m., so let's just get started, see how far we can go, and just keep the trains running, here, so we get the testimony we need from this distinguished group.

The Military Compensation and Retirement Modernization Commission (MCRMC) has been introduced to the committee about four times. Are y'all still the same people you were before?

Mr. MALDON. We are, Mr. Chairman.

Senator GRAHAM. Okay. If you could just start with the Admiral, here, for the record, announce who you are, then we'll get started. I'll defer any opening statements to the Senator from New York.

STATEMENT OF SENATOR KIRSTEN E. GILLIBRAND

Senator GILLIBRAND. Mine's really short, but I am just going to say thank you to Senator Graham for his leadership on this committee. I want to join him in welcoming all of you to be our witnesses.

We've already held a full committee hearing and a Personnel Subcommittee hearing on the MCRMC's findings and recommendations. Obviously your work is incredibly important to this committee. Today's hearing will address the MCRMC's recommendations to improve health benefits for our servicemembers and families. I'm especially interested in hearing from our witnesses about how these recommendations address the issues of healthcare access, healthcare choice, and healthcare quality for the junior en-

listed families and for military families with special needs dependents.

Recent reports indicate that many Military Service organizations have reservations about these specific recommendations. We will hear from some of these Service organizations today during the second panel. I take their concerns seriously and will ensure that their concerns are addressed before we consider any major overhaul of the military healthcare system.

Again, thank you for your excellent effort in this regard. We're very grateful for your hard work.

Senator GRAHAM. That was well done, and quick.

Senator GILLIBRAND. Short and sweet.

Senator GRAHAM. Admiral.

Admiral GIAMBASTIANI. Good morning, sir. Ed Giambastiani, retired Navy.

Mr. BUYER. Congressman Steve Buyer, class of 1980.

Senator GRAHAM. Go Dogs.

Mr. MALDON. Al Maldon, chairman.

Mr. HIGGINS. I'm Mike Higgins.

General CHIARELLI. Pete Chiarelli.

Senator GRAHAM. Thank you all for your great service. We'll receive your testimony.

STATEMENT OF HON. ALPHONSO MALDON, JR., CHAIRMAN, MILITARY COMPENSATION AND RETIREMENT MODERNIZATION COMMISSION; ACCOMPANIED BY COMMISSIONERS HON. STEPHEN E. BUYER, MICHAEL R. HIGGINS, GEN PETER W. CHIARELLI, USA (RET.), AND ADM EDMUND P. GIAMBASTIANI, JR., USN (RET.)

Mr. MALDON. Thank you, Mr. Chairman, Ranking Member Gillibrand, distinguished members of the subcommittee. My fellow commissioners and I are honored to be here with you. We thank you for the opportunity to testify before you again today.

As a Commission, we stand unanimous in our belief that the recommendations offered in our report strengthens the foundation of the All-Volunteer Force, it ensures our national security, and it truly honored those who serve and the families who support them. Our recommendations sustain the All-Volunteer Force by maintaining or increasing the overall value of the compensation of benefits for servicemembers and their families, and provide needed options for service personnel managers to design and manage a balanced force. Our recommendations, further, save the government more than $12 billion annually after full implementation.

Today, we specifically address our recommendations to improve the military health benefit. Modernization of the health benefit was one of the most sacred trusts given to this Commission. There is no benefit more fundamental, nor one more personal, than that which maintains the very health and well-being of our Nation's heroes and their families.

As commissioners, we share the unequivocal belief that a high-quality health benefit is essential for all military constituencies, and we find that the current TRICARE program falls short of this aspiration. TRICARE, as it exists today, is beset by several structural problems that deny our Active Duty families, Reserve-compo-

nent members, and retirees the high-quality health benefit they deserve.

Low reimbursement rates result in weak healthcare networks, a frustrating referral process that limits access to care unnecessarily. A key medical advancement and modern healthcare management practices are often slow to be adopted. The current TRICARE program limits choice, access, and quality. Conversely, our recommended—our recommendation on TRICARE Choice program expand all three while increasing the overall value of the health benefit to the servicemember.

Choice and access are important components of a high-quality health benefit, and we believe they can be delivered without undermining the existing Military Treatment Facility (MTF) structure and the training platform it provides. Current TRICARE beneficiaries already elect MTF-based care through TRICARE Prime, even when other options are available to them. The Commission's survey showed that servicemembers strongly prefer a health benefit that both increases choice of civilian providers and ensure continued access to MTF care.

Moreover, our proposed TRICARE Choice offer the same incentives to choose MTF care as DOD's less robust TRICARE reform proposal, and would be expected to result in the same retention of workload at the MTFs. Our recommendations further offer tools to improve medical readiness by attracting new cases into the MTFs, especially those related to combat casualty care.

Currently, there are serious challenges to maintaining joint combat medical capabilities with the typical mix of cases during peacetime. As a result, military medical personnel often rely on just-in-time proficiency training at civilian hospitals, and the Services substitute wartime medical personnel requirements with non-operational family and retiree care specialists during peacetime. Our healthcare recommendations improve the viability of MTFs as a readiness training platform by providing our families and retirees with greater access, choice, and value to their healthcare experience.

Finally, Mr. Chairman, our recommendation on DOD/Department of Veterans Affairs (VA) collaboration improves the healthcare experience for transitioning servicemembers. Just one example of insufficient collaboration, drug formularies continue to differ between DOD and VA, to the detriment of our transitioning servicemembers. Differing formularies often results in uncertainty, tension, and a lack of continuity of care for wounded warriors that should not exist, especially for those managing pain and mental health concerns. Our recommendations ensure proper continuity of care, regardless of the organizational considerations.

In closing, my fellow commissioners and I again thank you for the opportunity to testify here today. It has been our honor and privilege to serve our servicemembers and their families in our role as commissioners, and a particular honor to seek ways to improve and modernize the health benefit. We are confident that our recommendations will serve our servicemembers in a positive, profound, and lasting way.

We are pleased to answer your question at this time.

Thank you.

[The prepared statement of Mr. Maldon follows:]

PREPARED STATEMENT BY THE MILITARY COMPENSATION AND RETIREMENT MODERNIZATION COMMISSION

Chairman Graham, Ranking Member Gillibrand, distinguished members of the subcommittee: My fellow commissioners and I are honored to be here, and we thank you for the opportunity to testify today.

As a Commission, we stand unanimous in our belief that the recommendations offered in our report strengthen the foundation of the All-Volunteer Force, ensure our national security, and truly honor those who serve—and the families who support them—now and into the future. Our recommendations represent a holistic package of reforms that do not simply adjust levels of benefits, but modernize the structure of compensation programs for servicemembers. These recommendations sustain the All-Volunteer Force by maintaining or increasing the overall value of compensation and benefits for servicemembers and their families, and they provide needed options for Service personnel managers to design and manage a balanced force. Our recommendations also create an effective and efficient compensation and benefit system that saves the Government, after full implementation, more than $12 billion annually, while sustaining the overall value of compensation and benefits of those who serve, those who have served, and the families that support them.

JOINT READINESS

Some have suggested that increasing access to and choice among health care providers would impair readiness by limiting training opportunities in Military Treatment Facilities (MTF). Yet beneficiaries currently have complete freedom to use TRICARE Standard or Extra to seek care outside of MTFs, but they often choose TRICARE Prime and receive MTF care. The Commission's survey also showed that servicemembers strongly prefer a health benefit that, while increasing choice of civilian providers, allows continued access to MTF care. The Department of Defense's (DOD) TRICARE reform proposal recommends elimination of TRICARE Prime with lower MTF co-payments to incentivize continued MTF usage. TRICARE Choice proposes the same incentives and should therefore result in the same retention of readiness workload at MTFs.

Furthermore, our recommendations contain additional tools that enable DOD to improve medical readiness by attracting new cases into MTFs, especially those related to combat casualty care. There are serious challenges to maintaining joint combat medical capabilities with the typical mix of cases seen in the military health care system during peacetime. As a result, military medical personnel have had to rely on just-in-time proficiency training at civilian hospitals. The Services also regularly substitute wartime medical personnel requirements with medical specialties that provide non-operational family and retiree care during peacetime. DOD has recommended closing or repurposing many MTFs that do not have sufficient workload to adequately support readiness training. Conversely, our health care recommendations improve the viability of MTFs as readiness training platforms, while providing our families and retirees greater access, choice, and value to their health care experience. Key elements of the Commission's recommendation include the following:

- Establish a Joint Readiness Command (JRC).
  - Functional unified command led by a four-star general/flag officer.
  - Includes a subordinate joint medical function.
  - Required structure and personnel may be realigned from current Joint Staff functions.
  - Participates in annual planning, programming, budgeting, and execution process.
- Establish a Joint Staff Medical Readiness Directorate.
  - Led by a three-star military medical officer.
  - Current Joint Force Surgeon billet transitions to assume the increased authorities.
- Establish statutory requirement for DOD to maintain Essential Medical Capabilities (EMC).
  - Limited number of critical medical capabilities that must be retained within the military.
  - Secretary of Defense approves, establishes policies related to, and reports to Congress annually on EMCs.

- JRC identifies EMCs; establishes joint readiness requirements consistent with EMCs; monitors and reports on Services' adherence to EMC policies and standards; and monitors allocation of medical personnel to ensure maintenance of EMCs.

- Protect and improve transparency of medical programs funding.
  - Active component (AC) family, retiree, and RC health care should be funded from the Services' Military Personnel accounts.
  - Medicare-Eligible Retiree Health Care Fund (MERHCF) should be expanded to cover health care and pharmacy for non-Medicare-eligible retirees.
  - New trust fund for health care expenditures appropriated in the current year.
  - MTFs funded through a revolving fund using reimbursements for care delivered.
  - MTF operations that exceed reimbursement for care delivered to be funded from Services' operations and maintenance accounts as cost of readiness.

HEALTH BENEFITS

A high-quality health benefit is essential for all military constituencies. Yet, the current TRICARE program is beset by several structural problems that hinder its ability to provide the best health benefit to active duty families, Reserve component members, or retirees. It has weak health care networks because it reimburses providers at Medicare rates or lower. It limits access to care with a frustrating referral process. It has challenges adopting medical advancements or modern health care management practices in a timely manner. The Commission's recommended TRICARE Choice program expands choice, access, quality, and value of the health benefit. Key elements of the Commission's recommendation include the following:

- Continue to provide active-duty servicemember health care through their units or MTFs to ensure Services can maintain control of medical readiness of the Force.
- Retain current eligibility for care at MTFs, pharmacy benefit, dental benefit, and TRICARE For Life for all beneficiaries.
- Establish a new DOD health program to offer a selection of commercial insurance plans.
  - Beneficiaries include active-duty families, RC members and families, non-Medicare-eligible retirees and families, survivors, and certain former spouses.
  - AC families receive a new Basic Allowance for Health Care (BAHC) to fund insurance premiums and expected out-of-pocket costs.
    - BAHC based on the costs of median plans available in the family's location, plus average out-of-pocket costs.
    - Part of BAHC used to directly transfer the premium for the plan the family has selected to the respective insurance carrier.
    - Remainder of BAHC available to AC families to pay for copayments, deductibles, and coinsurance.
    - Establish a program to assist AC families that struggle with high-cost chronic condition(s) until they reach catastrophic cap of their selected insurance plan.
  - RC members can purchase a plan from the DOD program, at varying cost shares.
    - Reduce cost share for Selected Reserves to 25 percent to encourage RC health and dental readiness and streamline mobilization of RC personnel.
    - When mobilized, RC members receive BAHC for dependents; select a DOD plan or apply BAHC to current (civilian) plan.
  - Non-Medicare-eligible retirees' cost contributions remain lower than the average Federal civilian employee cost shares, but increase 1 percent annually over 15 years.
  - Leveraging its experience, Office of Personnel Management administers the program with DOD input and funding.
- Institute a program of financial education and health benefits counseling.

DOD–VA COLLABORATION

Our recommendation on DOD–VA collaboration improve the health care experience for transitioning servicemembers. For example, drug formularies continue to

differ between DOD and VA to the detriment of transitioning servicemembers. Differing formularies create tension maintaining servicemembers on medications with which they are familiar and transitioning servicemembers to new medication on new formularies. This tension should not exist, especially for pain medication and antipsychotics. We believe creating a single formulary for these medications is the best and only means of ensuring continuity of care regardless of organizational considerations. Key elements of the Commission's DOD–VA collaboration recommendation include:

- Grant additional authorities and responsibilities to the Joint Executive Committee to standardize and enforce collaboration between the DOD and VA to:
  - Establish within 6 months a strategic uniform formulary to include all drugs identified as critical for transition from DOD to VA status.
  - Oversee electronic health record compliance with national health information technology standards ensuring health care data can be quickly and easily shared between the departments.
  - Approve or disapprove in advance any new DOD or VA medical capital asset acquisition or modernization of capital assets, of either DOD or VA medical components.
  - Define common services and planned expenditures for them, and certify consistent with strategic plan.
  - Establish a standard reimbursement methodology for DOD and VA provision of services to each other.

In closing, my fellow Commissioners and I again thank you for the opportunity to testify here today. It has been our honor and privilege to serve servicemembers and their families as we have assessed the current compensation and retirement programs, deliberated the best paths to modernization, and offered our recommendations. We are confident that our recommendations will indeed serve our servicemembers in a positive, profound, and lasting way. We are pleased to answer any questions you have.

Comparison of Access to Care for DoD and Civilian Health Care Users, FY 2013

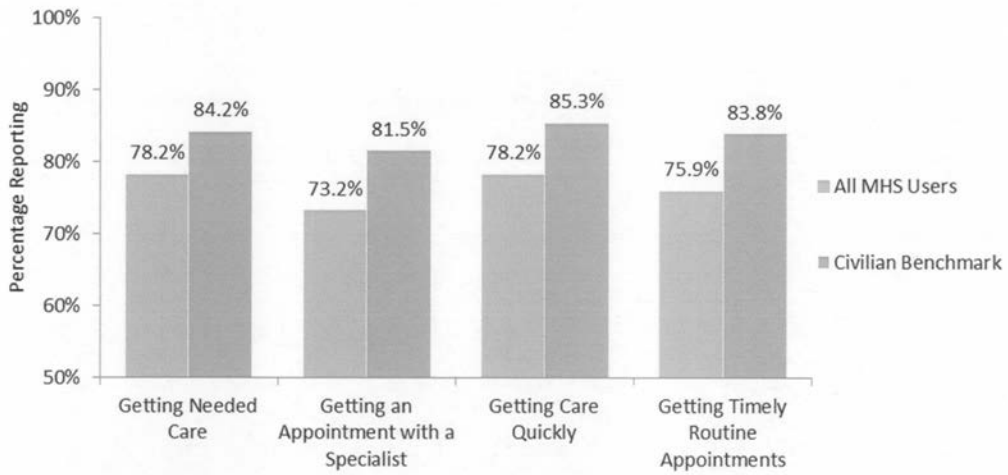
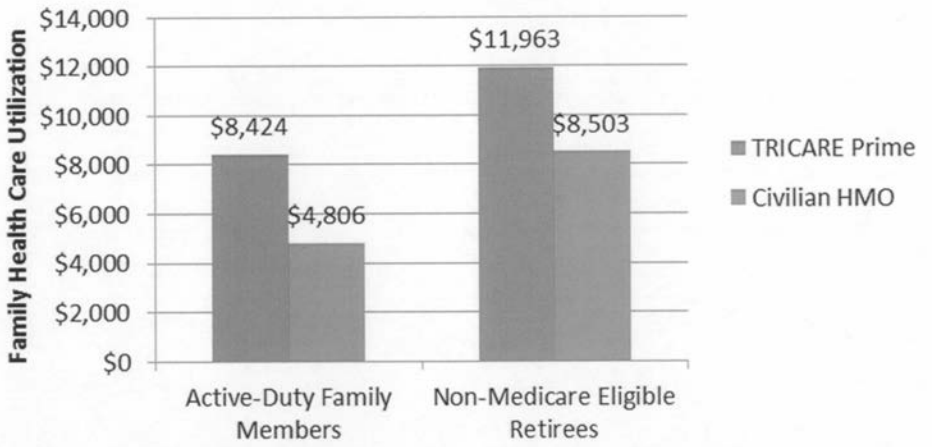


CHART 1

Health Care Utilization in TRICARE Prime versus Civilian HMO Counterparts



Source: Evaluation of the TRICARE Program: Access, Cost, and Quality, Fiscal Year 2014 Report to Congress.

CHART 2

Top 10 Inpatient Procedures in Military Treatment Facilities, FY 2013

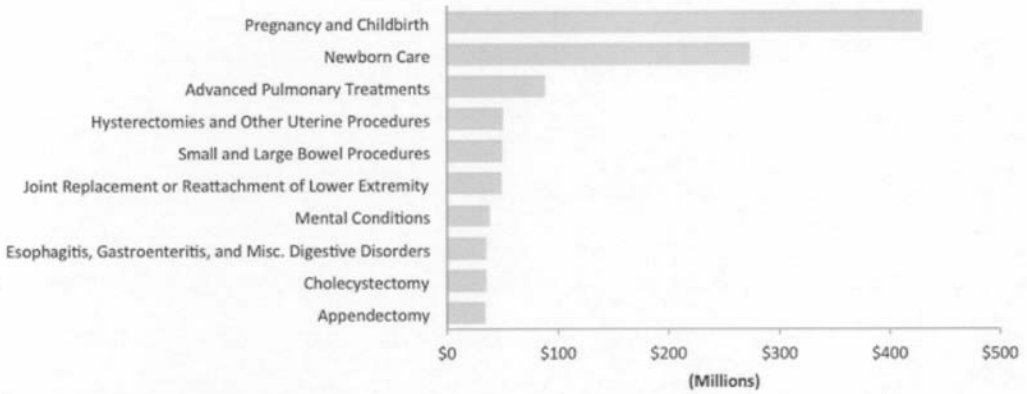


CHART 3

Components of Essential Medical Capabilities

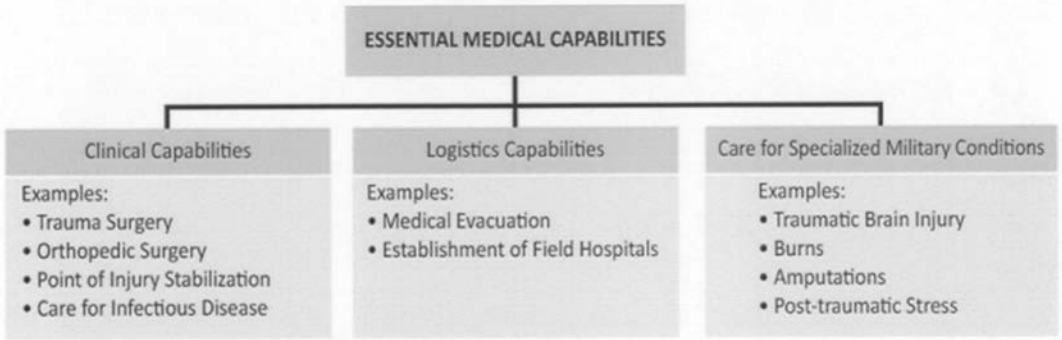


CHART 4

Active-Duty Service Members' Importance Ratings: Health Care Experiences

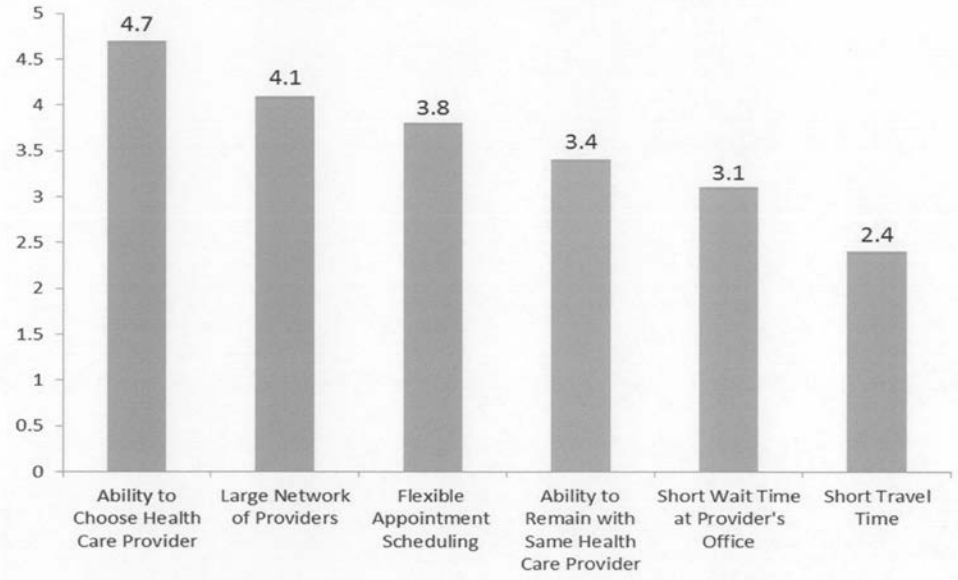
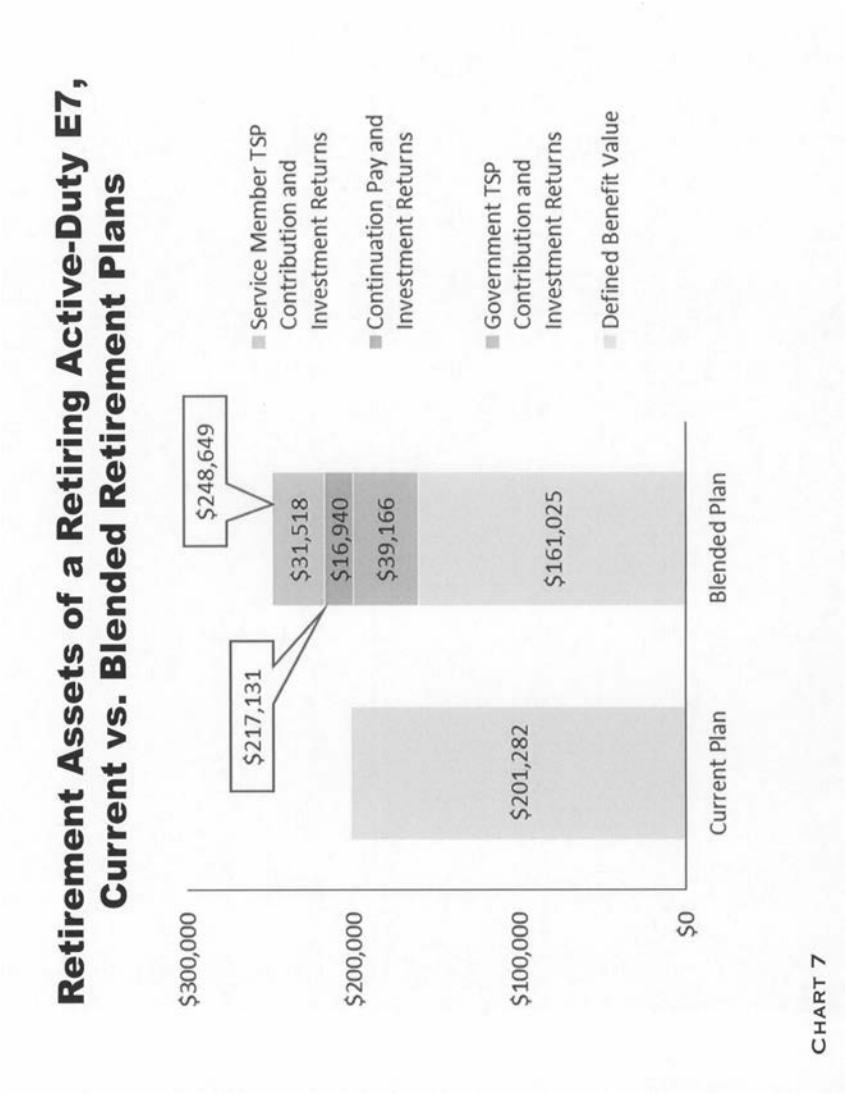


CHART 5

Increasing Networks

Area	Specialty	TRICARE	GEHA	BCBS
Fayettville, NC 28310 (Fort Bragg)	Family Practice	64	124	148
	OB/GYN	36	87	114
	Orthopedic Surgery	15	43	163
Phoenix, AZ 85004	Family Practice	82	129	107
	OB/GYN	111	96	122
	Orthopedic Surgery	56	92	95
San Diego, CA 92136	Family Practice	106	149	149
	OB/GYN	66	121	102
	Orthopedic Surgery	92	130	142

CHART 6



Senator GRAHAM. Well, thank you all very much for your hard work. We'll just get right at it.

One of the recommendations is that the amount of money to pay TRICARE bills, past increase on the patient side, is 5 percent. Is that correct?

Mr. MALDON. It's—that's 5 percent—there—it is at 5 percent.

Senator GRAHAM. Okay. So, the bottom line is, of all the—of the dollar we'll pay for TRICARE, 5 percent comes from those utilizing the service. Is that correct?

Mr. MALDON. That is correct, Mr. Chairman.

Senator GRAHAM. The norms in the private sector, somewhere in the 20s—28? Is that right?

Mr. MALDON. About 28 percent.

Senator GRAHAM. TRICARE originally was at 28 percent——

Mr. MALDON. 27, I believe.

Senator GRAHAM. 27 percent.

Mr. MALDON. Yes, Mr. Chairman.

Senator GRAHAM. Your recommendation is to get it to 20 percent over 15 years.

Mr. MALDON. That is correct, Mr. Chairman.

Senator GRAHAM. You believe we have to do that to make TRICARE sustainable, no matter what we do.

Mr. MALDON. It is our belief that that is absolutely correct.

Senator GILLIBRAND. Congressman Buyer, do you see a way to maintain the 5 percent and keep the program viable?

Mr. BUYER. No.

Senator GRAHAM. Okay.

All right. Now, you have retirees under 65 who are TRICARE recipients. Will they get a—an allowance in this new system? How much will their premiums go up beyond the 5 percent? Will their copayments go up? Will their deductibles go up?

Mr. MALDON. Mr. Chairman, they do not. Retirees—non-Medicare-eligible retirees do not get a basic allowance for healthcare as the active Duty——

Senator GRAHAM. How much——

Mr. MALDON.—family would do.

Senator GRAHAM.—more can the retired force expect to pay if we go to this new system, per person?

Mr. MALDON. Today, Mr. Chairman, they're paying about—roughly $500. Under the new system, the worst-case scenario would be up to about $1,760—$1,760—$69.

Senator GRAHAM. So——

Senator GILLIBRAND. That's per year? Is that per year?

Senator GRAHAM. Per year?

Mr. MALDON. Per year.

Senator GRAHAM. Wow. 17- what?

Mr. MALDON. That's $1,769. That's the worst-case scenario.

Senator GRAHAM. Gotcha.

Mr. MALDON. That's out to the——

Senator GRAHAM. I gotcha.

Mr. MALDON.—the 15 years.

Senator GRAHAM. I gotcha. Oh, so that's after the premium——

Mr. MALDON. That's after the—that's premium that will take you out to that——

Senator GRAHAM. No, I got you. So, aside from premiums, will their copayments or deductibles go up? Do we know?

Mr. MALDON. There would be some other costs in there. There's copay costs and deductibles, and some of those costs may be there.

Senator GRAHAM. I'll tell you what I want you to do. I want you to give me kind of a summary of what the median would look like. I want the retired force to know, "Here's what it would cost you to make this change."

[The information referred to follows:]

Health care costs for retirees and their families under TRICARE Choice can be divided into two components. The first component would what they pay for coverage similar to what they have today under the existing TRICARE program. To create an apples-to-apples comparison, cost should be compared for similar coverage. In TRICARE Choice, retirees would have many options for health care plans and could choose to purchase enhanced coverage (broader networks, better access, and more covered services), rather than the existing TRICARE program. The second component would be any additional cost retirees choose to pay to purchase coverage that includes these enhancements. Should retirees take advantage of the additional choices made available to them by TRICARE Choice and is not a cost increase to the retiree. Instead, it is, in fact, a compensation increase because the retirees receive the better coverage at a subsidized rate.

To evaluate these separate components of cost, the Commission considered two plans from the Federal Employees Health Benefit Plan (FEHBP) as examples of what types of plans might be offered in TRICARE Choice. The first plan is the Government Employees Health Association (GEHA). This plan is considered the most similar to the existing TRICARE program, although is not a perfect comparison. GEHA includes larger networks than the existing TRICARE program in the markets examined by the Commission and more covered services. But it is a lower-cost, PPO-style plan and is the best comparison the Commission could find for the existing TRICARE program. The second plan is Blue Cross Blue Shield (BCBS) Standard. This is one of the most robust and highest-cost plans in FEHBP and is used to illustrate the costs to retirees who exercise the opportunity to select better coverage made available to them by TRICARE Choice.

The table below shows the costs to retirees for these options: existing TRICARE program, TRICARE Choice with a plan similar to GEHA, and TRICARE Choice with a plan similar to BCBS Standard. The first row of data illustrates the costs retirees pay now under the existing TRICARE program. Retirees enrolled in TRICARE prime paid a $548 (in 2014) premium. In addition, about 3 percent of retirees purchase TRICARE Young Adult (TYA) for about $2,000 and about 65 percent purchase the TRICARE Retiree Dental Program for about $1,500 per year. This means that the average retiree is paying about $1,544 per year in premium costs for TRICARE. Adding in their copayments and deductible amounts for health care provides an average annual cost of about $2,030 per retiree household.

These costs would be largely unchanged in the first year of TRICARE Choice, when the retirees' premium cost share is 5 percent. These costs would increase, however, by the time TRICARE Choice was fully implemented with a 20 percent cost share (15 years after program initiation). In that year (using constant 2014 dollars), the comparable health care plan (GEHA) would have a premium for retirees of about $1,769 per year. No retirees would have to buy TYA and some retirees would rely on the partial dental coverage provided in GEHA instead of purchasing stand-alone full dental coverage, so the total premium amounts paid by the retiree in GEHA would be about $2,267 per year. Adding in copayments and deductibles provides an average annual cost of about $3,556 per retiree household.

The comparison to GEHA is the best available comparison with the existing TRICARE program. There would be many retirees, however, who choose to purchase better coverage that costs more. A retiree who chooses to purchase better coverage, like BCBS Standard, would pay about $552 more per year ($3,556 to $4,108) for a plan with a value of about $2,763 more than GEHA (because the government would pay an 80 percent cost share at the end of the 15-year period, the government would be paying the remaining $2,211 for the added value of health benefits. Thus, these retirees are experiencing an increase in their compensation.

Understanding Non-Medicare Eligible (NME) Retiree Costs

Family Plans
(FY14$)

	NME Retiree Health Care Premium	Average NME Retiree Premium Payments*	Average NME Retiree Costs**
TRICARE Today	Current TRICARE		
	$548	$1,544	$2,030
TRICARE Choice	First Year (5% share of the total premium)		
GEHA	$442	$941	$2,229
BCBS Standard	$580	$1,079	$2,367
TRICARE Choice	Full Implementation (20% share of the total premium)		
GEHA	$1,769	$2,267	$3,556
BCBS Standard	$2,321	$2,820	$4,108
* Health, Dental, and child up to age 26			
**Premiums plus out-of-pocket costs			

Senator GRAHAM. Now, the hope is that, if you make this change, the benefits go up and make it worth the additional investment. That's the goal of this, right, is to give you more choices, better healthcare?

Mr. MALDON. Yes.

Senator GRAHAM. Okay.

Mr. MALDON. Yes, Mr. Chairman.

Senator GRAHAM. All right. Now, Active Duty family members, they'll get a basic allowance, so they'll have no out-of-pocket cost. Is that correct?

Mr. MALDON. That is correct.

Senator GRAHAM. For the median program.

Mr. MALDON. That is correct, Mr. Chairman.

Senator GRAHAM. For the median cost.

Mr. MALDON. Yes.

Senator GRAHAM. Will their deductibles or copayments appreciably go up under TRICARE Choice?

Mr. MALDON. Let me ask——

Senator GRAHAM. Do they have any copayments or deductibles?

Mr. MALDON. Let me ask Commissioner Higgins if he would respond to that question, please.

Mr. HIGGINS. Senator, today there are copayments that——

Senator GRAHAM. Right.

Mr. HIGGINS.—Active Duty people pay. If they remain inside the MTF, obviously those are minimal. But, the key here is that there are two pieces to the basic allowance for healthcare. One is the premium. They——

Senator GRAHAM. Right.

Mr. HIGGINS.—pay the 28 percent.

Senator GRAHAM. Right.

Mr. HIGGINS. The other piece is the copayments that they are expected, in that median plan, to pay. So, we would project that 85 percent of people would not see a copayment or out-of-pocket expense beyond what they're doing today.

Senator GRAHAM. Okay, that's my question. I want you to validate that. Eighty-five percent of the people in the current

TRICARE system would not expect to see an increase in copayments.

Mr. HIGGINS. That's correct. They would be fully——

Senator GRAHAM. Everybody's going to expect to see an increase in premiums if we adjust from the 5 percent.

Mr. HIGGINS. That's, of course, the 5 percent only applies to the——

Senator GRAHAM. Retirees.

Mr. HIGGINS.—working-age retiree——

Senator GRAHAM. Yes.

Mr. HIGGINS.—not the Active Duty——

Senator GRAHAM. That's—not Active Duty family members.

Mr. HIGGINS. Right.

Senator GRAHAM. Okay. So, 85 percent of the people seem to be immune from any copayment increase if they——

Mr. HIGGINS. That——

Senator GRAHAM.—go to TRICARE Choice.

Mr. HIGGINS. That would be our analysis——

Senator GRAHAM. Active Duty——

Mr. HIGGINS.—yes, sir.

Senator GRAHAM. Okay. Guard and Reserve, is that still the same?

Mr. HIGGINS. The Guard and Reserve package is a little bit different. The TRICARE Reserve Select would have a cost share of 25 percent, and that would be, as it is today, fully burdened to the individual.

Senator GRAHAM. How much more would they have to pay, in terms of dollars?

Mr. HIGGINS. It would be my view, I believe, that there wouldn't be much of an increased cost. We're going to take that percentage——

Senator GRAHAM. Right.

Mr. HIGGINS.—and make it a lower percentage burden to the individual, from 28 down to 25.

Senator GRAHAM. Okay. I guess what I'm saying is, just give me some estimate of out-of-pocket cost, here. You've given me a good estimate from 500 to 1,769 over the next 15 years.

Mr. HIGGINS. Sir, if——

Senator GRAHAM.—in terms of premiums, in the worst-case scenario. On the copayment side, I'd like some kind of analysis, too.

[The information referred to follows:]

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* Health, Dental, and child up to age 26			
**Premiums plus out-of-pocket costs			

Mr. HIGGINS. The——

Senator GRAHAM. That's all I'm asking.

Mr. HIGGINS. If I could, Mr. Chairman, when we look at retirees today, the working-age retiree, we have determined that their out-of-pocket costs are approximately—a little over $2,000, on average.

Senator GRAHAM. Okay.

Mr. HIGGINS. Many pay much less if they stay within the MTF. But, many are paying dental premiums, many are paying for adult-child coverage that is quite expensive. So, on average, the retiree—working-age retiree—is about $2,000, and final end state, 15 years from now, we would project that that retiree, who's going to get the adult child in their healthcare plan under TRICARE Choice, is going to be out-of-pocket somewhere around $3,500. So, we're looking at a increase of less than two times.

Senator GRAHAM. Okay, thank you.

Senator Gillibrand.

Senator GILLIBRAND. Thank you.

One of my concerns is the needs of families with special needs. Your report says that there should be a DOD program available to assist families with a high-cost chronic condition or a catastrophic event or illness with medical expenses until they reach their health plans' catastrophic caps or are no longer required to pay out-of-pocket costs. Active Duty families should apply for the—to this program for additional funding to cover copayments that substantially exceed their basic allowance for healthcare. How do you envision this operating?

Mr. MALDON. Thank you, Senator, for the question. I'm going to ask Commissioner Buyer to respond to that question, please.

Mr. BUYER. In our report, I'll refer you to pages 265 through 267. What we seek to do is to mitigate the financial risks of the chronic and catastrophic illnesses to the Active-Duty family households. So, when you take about the average median plan, and you're about—around the $995s, say just under $1,000. We—back—when we did—prior to Medicare Part D, we used to talk about the "donut hole," with drug costs. There's kind of a hole here, also, meaning you're covered to $1,000, but, when you get to $2,000, that's the cap, and then you're triggered into a fund. We've come up with a calculation that we believe that funding the program with about $50 million annually will allow for the complete coverage of expenses for that family in excess of $2,000.

Senator GILLIBRAND. Okay. Who will be in charge of deciding who receives the additional funding and how to define "chronic" and "catastrophic" conditions?

Mr. BUYER. You have the plans. So, the—each of the plans—when you have a family member that—with a particular condition for which they're being treated, if, in fact, it's chronic, and you have catastrophic coverage. I mean, my gosh, it could—it could be—catastrophic could be any form of—type of an illness or an accident. When those costs exceed $2,000, it triggers into the fund.

Senator GILLIBRAND. Okay.

Admiral GIAMBASTIANI. If I could, the Secretary of Defense or Department of Defense (DOD) would determine that.

Senator GILLIBRAND. Okay.

How—would families with special-needs dependents be automatically enrolled, or do they need to figure this out?

Mr. MALDON. Yes. Commissioner Higgins, I'm going to ask you to respond to that question.

Mr. HIGGINS. We don't envision an enrollment, per se, although I think a family with a special-needs individual in the family would be well-recognized in the system, and there would be an acknowl-

edgment that, after the first year or 2, that there would be—it would be consistent to consider them a special category, and there wouldn't be an—a very arduous kind of administrative process.

Senator GILLIBRAND. Okay. How did you assess the $50 million fund? How did you assess that that would be the right amount of money?

Mr. HIGGINS. We calculated what the out-of-pocket costs would be today, where that—the basic allowance for healthcare would take—the allowance for out-of-pocket costs would take them. Where that line crossed, we considered what the costs would be for all the population beyond the crossing lines. That was calculated to be $50 million. You could add money to that, obviously, and push that line back. That would be perhaps a decision Congress might want to consider. But, we believe that we have the right analysis, on $50 million after the crossing lines, where you have out-of-pocket costs match each other.

Mr. MALDON. Senator, that's based on 5 percent, too, I thought, just to be sure. It was 5 percent of the people we thought that would fall within that category.

Senator GILLIBRAND. Now, it's not clear, would this program also apply to family of military retirees, or is this just for Active Duty?

Mr. MALDON. It's Active Duty, Senator.

Senator GILLIBRAND. Okay. So, did you assess possible costs for medically retired wounded warriors having access to these kinds of funds to pay for medical expenses for any special-needs dependents they have?

Mr. MALDON. No, we did not. I mean, no, it will not.

Senator GILLIBRAND. Okay.

So, what would they—so, someone who is a veteran, who is—wounded warrior who has a child with autism, what do they do? They just don't get coverage through this system, or there's no extra money if they do have catastrophic-care requirements?

Mr. MALDON. Commissioner Higgins, would you respond to the question?

Mr. HIGGINS. Senator, I'm assuming you're talking about somebody that qualified for a disability retirement.

Senator GILLIBRAND. Yeah.

Mr. HIGGINS. They would be covered in the same way as a working-age retiree would be covered.

Senator GILLIBRAND. But, you said retirees aren't covered—their families aren't covered.

Mr. HIGGINS. I'm sorry. The——

Senator GILLIBRAND. So, I'm asking about dependents of retirees or medically wounded—wounded warriors. So, let's say you're Active Duty, you have an autistic child, you're trying to get the medical necessities for your child——

Mr. HIGGINS. I see.

Senator GILLIBRAND.—to develop. You get wounded in Afghanistan. You are—must retire, for—due to that injury. What does that dependent do? Are—is there any coverage for them? Have you assessed cost? What happens?

Mr. HIGGINS. I believe I would like to correct that, then. They would not be covered, because this would be an Active Duty benefit. I—if I do understand you correctly now. So, a wounded——

Mr. MALDON. Yes, let us take that, Senator Gillibrand——
Senator GILLIBRAND. Just——
Mr. MALDON.—for the record.
Senator GILLIBRAND. Just analyze that fact pattern for me.
Mr. MALDON. Okay.
Senator GILLIBRAND. Because it's real. It's the kind of thing that happens.
Mr. BUYER. But, I think it's also—it's also worthy—you've brought up a scenario that we didn't think about.
Senator GILLIBRAND. Yeah.
Mr. BUYER. I want to thank you for that. But, it's also worthy for you to improve our work product. So, if you have the consideration that, "You know what? I think this fund, for these special needs"—because this is really narrow population that you've defined, here——
Senator GILLIBRAND. Yes.
Mr. BUYER.—because the VA's not going to cover that dependent, and whether they access into this fund is probably a worthwhile recommendation, and it's right in your jurisdiction to do.
Senator GILLIBRAND. Okay.
Admiral GIAMBASTIANI. When I was on Active Duty, I thought the Exceptional Family Member Program was working and that we were sending people where they could get the medical care they needed. When we went around to posts, camps, and stations and talked to servicemen all across the country, we found out it is not working, according to spouses, that many of them are sent to places where they cannot get critical care.
Senator GILLIBRAND. Right.
Admiral GIAMBASTIANI. I honestly believe that this program would increase the access to that care for the Active component——
Senator GILLIBRAND. Now, are you——
Admiral GIAMBASTIANI.—soldier.
Senator GILLIBRAND. Did you do any analysis about whether a stigma would be created for people who access this fund? Or was that not an issue raised? Meaning, you may not want your commander to know that your wife has a chronic condition that—whatever. It may be personal. It may be something that—so, is it known—is it known by your commander unit that you're accessing this fund, or does it stay——
Admiral GIAMBASTIANI. Well——
Senator GILLIBRAND.—confidential under healthcare?
Admiral GIAMBASTIANI. I remember the day I could no longer go and pick up my wife's medical records at the MTF, when HIPAA went into play—in play. So, I believe that that would——
Senator GILLIBRAND. It would stay confidential.
Admiral GIAMBASTIANI.—that would be confidential under HIPAA, which the military follows very, very strictly.
Senator GILLIBRAND. Okay. Because we—I worked a lot on special——
I'm over time.
Senator GRAHAM. No, take your time.
Senator GILLIBRAND. I worked a lot on getting funding for special-needs treatment specifically under TRICARE. So, that work gets vitiated to a significant degree if other options are now avail-

able. I just don't want to lose the access that we were trying to develop for special-needs kids if a servicemember gets injured, which happens all the time. So, we just want to make sure this population has services.

Admiral GIAMBASTIANI. I—if I could just add, we—as General Chiarelli said, we spent a lot of time looking at exceptional family members on the Active Duty side. We did not spend as much time on the——

Senator GILLIBRAND. On retirees.

Admiral GIAMBASTIANI.—veteran side.

Senator GILLIBRAND. Okay.

Mr. BUYER. But, the medically retired, I think it's awesome. I mean, you went right to something very narrow and specific. If you try to define that population——

Senator GILLIBRAND. It's going to be——

Mr. BUYER.—it might be 12.

Senator GILLIBRAND. Yeah, it's going to be——

Mr. BUYER. I mean, it's going to be——

Senator GILLIBRAND.—specific.

Mr. BUYER.—really small.

Senator GILLIBRAND. Yeah.

Mr. BUYER. So, adding that to access this fund, I think, is probably—is well worthy of your consideration.

Senator GILLIBRAND. Thank you.

Senator GRAHAM. With that, we're going to just recess. We're going to go vote. We have back-to-back votes, and so, we'll stand in recess. When Senator Tillis gets back, tell him, please, to just go ahead and chair the hearing, and we'll be right back.

Thank you.

Senator GILLIBRAND. Thank you.

[Recess.]

Senator TILLIS [presiding]. Thank you all. If we can come back to order.

I think the chairman and the ranking member will be back momentarily, but, since I'm probably the only other one that was going to ask questions of this panel, we'll go ahead and proceed.

I'd like to start with kind of normalizing the first numbers, Chairman Maldon, that you and Senator Graham discussed, and that was the $500 to $1,700 number. I'm just trying to normalize that, because I think we need to make sure it's communicated properly, because—are you saying that the $500, in today's dollars with the new program design at year 15, is at $1,700?

Mr. MALDON. Yes, Senator Tillis, it's at the—today it's $500—roughly $500. What we are saying is that, 15 years from today, that cost would have—would be $1,769——

Senator TILLIS. Could you go——

Mr. MALDON.—approximately.

Senator TILLIS. Could you go on to discuss if—let's just say we keep current state, and the number under the current state is $500—what the projection would be 15 years from now if you did nothing. Has there been math on that?

Mr. MALDON. We did some math on it. I honestly don't remember exactly what those numbers might be at this point in time. I'll ask my colleagues, here, if anybody might remember. If not, I'll——

Senator TILLIS. Okay. If it's——

Mr. MALDON.—take it for the——

Senator TILLIS.—not readily available, if we could ask you to——

Mr. MALDON. I'll take it for the record. Let me take it for the record.

Senator TILLIS. Because I think that that's—it's very important for people to understand that this is not added purely because of the change in program design, that some of these are rising costs of insurance, healthcare, and a number of other factors over a 15-year period.

Mr. MALDON. Yeah. We will do that. It is constant dollars that we're talking about. But——

Senator TILLIS. All right.

Mr. MALDON.—we'll definitely take that for the record, and I can get back to you on this.

[The information referred to follows:]

The estimates on the change in retiree health care costs that have been provided by the Commission have been in constant or real dollars, i.e., they are in a base year so that simple comparisons of the costs at different points in time can be made on a comparable basis. In constant dollars, the TRICARE Prime premium for retirees declined from the program's inception in 1995 until 2012. In fiscal year 2013, the TRICARE Prime premium became indexed to retirement pay increases and thus is now fixed in constant dollar terms.

The 2016 President's budget request eliminates the TRICARE Prime program for non-Medicare-eligible retirees and introduces a new premium at the Prime level for the remaining (modified) version of TRICARE Standard/Extra that was previously provided for free.

Senator TILLIS. Okay.

Mr. MALDON. Okay?

Senator TILLIS. Something else that was in the—I think, the opening paragraph of your opening statement, was the $12 billion that would, I think, be saved. The—typically, the leap one would make, who may be a stakeholder in this, is that $12 billion comes at the expense of something less than they're going to receive. I'm assuming, similar to the pension strategy, it may come from efficiencies and other things. Can you talk about the key sources of the—the sources of that $12 billion in savings?

Mr. MALDON. Yes, Mr. Chairman. I'm going to ask Commissioner Higgins to start off talking about it, and then we'll have others talk about it, as well.

Mr. HIGGINS. Senator, the $12 billion that you refer to has three parts. One would be the savings from just moving to an accrual system for the working-age retiree. That has budgetary savings of $4 billion. So, just looking at the healthcare components of all this, of what we propose, we would suggest that the cost shares are going to produce roughly $2 billion in savings. Better utilization, better management of the program is going to develop about $5.2 billion of savings there. So, we are increasing cost shares for the working-age retiree. As a result, they are part of the savings, obviously.

Senator TILLIS. So, some of that is as a result of the cost share, but not all of it. You're saying somewhere on the order of $5 billion of the $12 billion?

Mr. HIGGINS. Is the purely utilization management that the private sector is going to bring to the program. For example, we're

going to put $4.5 billion of those total savings back into the system, in terms of your choice, in terms of the improved network, in terms of that healthcare management, that quality management that's going to produce quality healthcare for people. We believe that we're pushing back into that system about $4.5 billion. So, the net savings, just looking at the healthcare aspect alone, is about $2.7 billion.

Senator TILLIS. Do you have any sense where some of the increased cost comes with a benefit of increased value? Where—to the extent there's going to be more—or is there something, as you're talking to the stakeholders—I know that the choice becomes a factor which seems to rate pretty highly among many that would be a part of the plan. But, can you give me some sense of how much of that—the additional costs or the cost share is somehow compensated for by much higher value for the money?

Mr. HIGGINS. Mr. Chairman, you want to——

Mr. MALDON. Yes. One of the things that takes place, Mr. Chairman, is that there's an expense in——

Senator TILLIS. He's back. It was a fleeting moment. [Laughter.]

Mr. MALDON. Okay, I apologize. Okay.

Senator, is the—there's an expansion of the network that takes place there. Then, in terms of just the program management, in itself, just bringing about efficiencies and streamlining the processes of the way the work is done, of some of that. Also, just in increasing the value of the services that they were to get with regard to the doctors, themselves—I mean, the medical professionals, and—because now you're talking about the people that would not be reimbursed at the reimbursement rate or lower rate, so you have increased quality that would hopefully come with that, as well.

General CHIARELLI. I would argue that—also, that I don't think that there's a single one of the groups that'll follow us that would argue they don't want to see the best possible medical care for servicemembers when deployed into harm's way. Central to our recommendations is that, ensuring that our doctors are trained in a way that, as I've said before, on the first day of battle, they can provide the same kind of care they have after 13 years of battle. That's a critical piece. As these—as the Services get smaller, the number of dependents gets smaller, we need to find ways that attract additional people into the MTFs, but also the right kind of caseload into the MTFs, so that we have that critical, critical combat medical readiness.

Senator TILLIS. Then, the last thing—sorry, Mr. Chairman, if I may—just, again, going back to initial reactions by stakeholder groups, either those who would be in the plan or the providers. What sense do you have of their reaction? We're going to hear, I think, shortly, but what sense do you have, in terms of the challenge that we would have to convince those who are—would be beneficiaries of other changes, that it's the appropriate path?

Mr. MALDON. I'm going to ask Commissioner Buyer to respond to your question.

Mr. BUYER. So, if I may, Mr. Chairman, right now in TRICARE, we have very limited networks. Okay? The networks are limited because of the reimbursement rates. So, in order for me—you're a

doctor, I'm one of the TRICARE contractors. I want you in my network, but I want to make money, too. So, I get you in my network, but I'm going to pay you below—below Medicare rates.

Now, you look at your practice, and you say, "Okay, of my practice, I can only take so much Medicare, so much Medicaid," right? You make these decisions. You say, also, "I may be a veteran. I'm going to do this because of the flag, my patriotism," but you can only do that for so long, right?

So, here's what I'd like you to see. You say, "Well, how does the family really feel about this?" Well, access is pretty important, right, to a health network. In TRICARE, our networks are very limited. So, take for example—we'll go to Fayetteville, Fort Bragg. So, for orthopaedic surgery—you blew out your knee, right, or your son or daughter has, in an athletic event, and you need to see an orthopaedic surgeon. In the TRICARE network around Fort Bragg, you get access to only 15 orthopaedic surgeons. If you are in the BlueCross/BlueShield plan, under TRICARE Choice—you chose the BlueCross/BlueShield—you get access to 163 orthopaedic surgeons. How come only 15 out of the 136 are in the network? Because of the low reimbursement rates, right? So, those rates are going to begin to limit the choice.

So, when you say, "How does it impact the family?" You want the access to the very best of healthcare, and, in order for someone to qualify as a provider under a BlueCross/BlueShield plan, they don't select just anybody, they have to meet their own qualifications to be a provider within their plan. They want the best. They don't—and what does TRICARE do? Does TRICARE have any specialty requirements in order to be in their plan? No. It's just you'll accept below-Medicare rates.

This is incredibly important when you begin to see the differences from family practice, OB–GYN—you can go down a lot of different specialties and you'll be able to see how these limited networks limit the access and choice and access to good quality healthcare.

Senator TILLIS. Thank you. That chart reminds me that I need to enroll in vision care, now that I'm here in the Senate. [Laughter.]

But, thank you, Mr. Chairman.

Mr. BUYER. The reason I have the GEHA plan, there, the Government Employees Health Plan, is—that's about the median.

Senator GRAHAM [presiding]. Right.

Mr. BUYER. We couldn't find an actual plan in the marketplace to say what would be the median. So, Mr. Chairman, you talked about the median——

Senator GRAHAM. Right.

Mr. BUYER.—early on. That's about it.

Senator GRAHAM. That's 87? What number is that?

Mr. BUYER. Yes, that would be 87 or in the GEHA plan, which is about the median.

Senator GRAHAM. Okay.

Mr. BUYER. But, if you wanted the BlueCross, oh, my gosh, the numbers—oh, I'm sorry, it's 43 for orthopaedic surgeons.

Senator GRAHAM. Gotcha.

Mr. BUYER. So, TRICARE would be 15——

Senator GILLIBRAND. Reimbursement rates or that's——

Mr. BUYER.—GEHA median plan is 43; with BlueCross/BlueShield, 163.

Senator GRAHAM. Gotcha.

Mr. BUYER. So, look at the avenue of choice and access and quality of healthcare. Pretty extraordinary.

Senator GRAHAM. Your——

General CHIARELLI. I would also point out, besides being it—the cost, and paying below Medicare rates, there's another bureaucratic requirement, and that's to get certified by TRICARE to be in the network. Many people—many doctors back away from joining the network when they realize that there's the additional bureaucratic requirement to get certified and made part of the network, even though they're certified in their State to provide that care.

Admiral GIAMBASTIANI. Finally, if I could say, when you look at this chart, this is just a static chart that exists today. As we go on in the history of TRICARE, these numbers keep getting wider and wider and wider, which is why we think TRICARE, long term, is in a death spiral.

Senator GRAHAM. Well, that was very impressive for a House member. So——[Laughter.]

Senator Cotton.

Mr. BUYER. You have a feigned memory, Mr. Chairman. [Laughter.]

Senator GRAHAM. Senator Cotton. Nope, you're next.

Senator COTTON. So, your comment about vision makes me think of a—an element of the essay "What Does ISIS Really Want from the Atlantic," last week, where the reporter had gotten—had talked about the roots of ISIS, and he went to interview a jihadi in London, said that no one really understood how great Sharia was, because all they saw was the beheadings and the cutting off of hands. They didn't understand all the social-justice elements of it: free public education, free housing, free healthcare. The reporter asked the jihadi, "But, doesn't Great Britain already have free healthcare?" The jihadi said, "No, a lot of stuff like vision isn't covered." [Laughter.]

So, maybe that's the legitimate grievances that they have.

Mr. Chairman, I'll start with you. So, I mean, as I've gone through some of the recommendations—and I've heard, last week, from a lot of folks at home—one point that you commonly hear is, "Well, we're going to have to pay for more." I mean, it is a—is it a fair characterization to say maybe you're paying a little bit more, but you're also getting a lot more? Furthermore, you would be getting less for what you're already paying for if we proceed with the current sequestration policies?

Mr. MALDON. I think that is absolutely correct, Senator Cotton.

Senator COTTON. Okay. I mean, other—feedback from other folks on the panel?

But, how—when you—we were talking to the beneficiaries here, and they, in the end, just see that they have a higher bottom line. Like, what are the key benefits that you think we can tell them, like, "No, this is what you're getting if you pay a little bit more on a periodic basis"?

General CHIARELLI. Well, I would argue the mere fact that you take it out of the government contracting business and—DOD contracting—and you don't wait 5—you have a 5-year contract that's very, very difficult when a new medical procedure comes out, of some kind, to go ahead and modify that contract. That 5-year contract turns into an 8-year contract after the protest takes place. So, in the eighth year, all those things that were brought to medicine in that 7-year period aren't available to the TRICARE recipient. That's why we've literally got people that we're putting together treatment plans for traumatic brain injury and post-traumatic stress at the NICO at Walter Reed. They go under the TRICARE system, and TRICARE, their insurance, refuses to pay for 50 percent of the things that are on the plan that we said that this particular servicemember needed, to get better. That, to me, validates Admiral Giambastiani's statement that this system is broken.

Senator COTTON. Other feedback?

Admiral?

Admiral GIAMBASTIANI. I would just tell you that you just look at the way the numbers keep going. Unfortunately, what's happened over the years is, because we haven't changed the copays, because we haven't changed any of the fees, because they've remained virtually static, you have to get money out of it somewhere out of the system. So, we keep changing the size of the sectors or the areas of responsibility. We try to collapse contracts that—the DOD is working as hard as they can to make it as efficient, but, ultimately, what happens to this is, you reduce the amount of available care to beneficiaries, you reduce the quality, because the groups that are available to do this have shrunk considerably. So, therefore, the system keeps eating itself from within, is what I would tell you. That's why I think it's in a death spiral.

Mr. BUYER. I would just like to add this. In the 1990s, after the first Base Realignment and Closure (BRAC), and it was exposed that the military retiree really wasn't enjoying the freedom and liberties that they had fought for, because they felt that they had to live in close proximity to a military base to access healthcare. Then the BRAC exposed them, that, wait a minute, that the government was about to throw them onto Medicare. Congress responded with TRICARE for Life. When we did that, we essentially said to the military retiree, "You're free. You can live anywhere you want in the country that you fought to defend." It really changed the interdynamic of the military retiree, because now they can go live with their children and know their grandchildren. Better yet, when they go do that—and I'm a military retiree of which I'm a military retiree—I look at this and say, "I can actually access better choice, a greater number of highly qualified doctors." There is—it's not written about in the press.

This debacle that occurred in the VA, on waiting times—the reason America got so upset about it was because of the integrity question. It really was. We still—we—if you go in and you look at the inside of the MTFs today, talk to those soldiers and the families, talk to the wives. The waiting times for primary care and specialty care—shameless.

So, accessing this under TRICARE Choice, not only for the families, but also for the military retirees, that gray-area retiree, we get

them better access to care, increase their choice, and increase their quality.

So, that's what they get for a little more money.

Senator COTTON. I mean—go ahead, Mr. Chairman.

Mr. MALDON. Senator, I'd just also add to this—and, I think, in terms of just summarizing it, here, into three different areas. For the Active Duty family members, they get those—for their money, there's no additional costs, here, but they get a lot more, in terms of choice, access, and so forth, as my colleagues have already said. Then, for the Reserve components, they get a lot more, because, one, the cost has been reduced from 28 percent of their premium to 25 percent, so they—that's a—there's a cost savings there to them. It's a lower cost there. In addition to that, there are—there's no break in coverage when the Reserve component member is mobilizing, deploying, and back and forth, and so forth. They don't have that break in coverage that they would have under the current system. They're going to have consistent coverage during that period of time, which would be a much better value under the new—under our proposed——

Mr. BUYER. Could I——

Mr. MALDON.—recommendations.

Mr. BUYER. Could I add one more? The big winners, that isn't really talked about in this, are those that live in the rural areas. They're the ones who are the really big winners under this type of a health system. Because when—if you're subject to the TRICARE today, and you're in a limited network, it's so limited, whereby sometimes you go against your migratory pattern. We don't talk about that very often. But, someone from a small town thinks that they need to go to a bigger town for better healthcare. Of if I'm in a bigger town, I need to go to the bigger city for better healthcare.

In the TRICARE network, sometimes when they sign up a particular doctor, they may say, someone in a town of 10,000, you have to go over to the town of 3,000 people to go get your healthcare. It just drives them crazy. It really does.

This type of plan, we can access a greater—I'm sorry, I didn't mean to point in front of your face—but you great—you access a greater number of healthcare providers in rural areas, Senator Cotton, and that is a huge benefit in this plan.

Senator COTTON. I'll yield back.

Senator GRAHAM. Excellent question.

Anything else, Senator Gillibrand?

Senator GILLIBRAND. No.

Senator GRAHAM. Thank you all. We will——

Absolutely.

Senator COTTON. Since there's no more questions——

Is it your best estimate that beneficiaries in the system, even if they pay—in certain cases, pay a little bit more than they do now—still, on average, will be paying less than similarly situated beneficiaries who did not serve in our military?

Mr. MALDON. Yes. In fact, they'd be paying less than what someone that was a part of a healthcare plan similar to FEHBP. They'd be paying less than those civilian employees that would be enrolled in that plan.

Senator COTTON. That's at—everyone's in agreement on that point? So——

Admiral GIAMBASTIANI. Yes.

Senator COTTON. Admiral? Yes.

So, one might say that to—in response to the point that we promised our veterans that they would receive a certain level of healthcare, and that would be a better or lower priced care than civilians who didn't serve receive, yes, this proposal is going to keep that promise.

Mr. BUYER. Absolutely.

Senator COTTON. Yes.

Mr. BUYER. Because today someone who worked at a depot as a Federal civilian employee is getting access to better healthcare than the servicemember in uniform or his—in particular—not necessarily him, it's his family, in the TRICARE network. Because the TRICARE network is so limited so that Federal civilian employee is getting access to better healthcare for his children than the servicemember for theirs. That's not right.

Senator COTTON. When you take into account the entire package of healthcare benefit, price, access, quality, so forth.

Mr. BUYER. Yes.

Senator COTTON. That the promise we made to our servicemembers is that they would receive that package, relative to civilians, not necessarily that that package would never change in any way for the rest of time.

Mr. BUYER. For the rest of time? Well, I don't——

Senator COTTON. For the——

Mr. BUYER.—I don't know what that means. But, for—for the rest of time.

Senator COTTON. For——

Mr. BUYER. I do know, for the military retiree, for example, they're very artful, okay, in their words that they will select, because they're, "Oh, I've been promised healthcare for life." I mean, you——

Senator COTTON. That's because soldiers are very artful——

Mr. BUYER. Well, you'll——

Senator COTTON.—and always have been.

Mr. BUYER.—you'll hear artful things. But, they have——

Mr. MALDON. No, but——

Mr. BUYER.—they have had a tremendous benefit. They really have.

General CHIARELLI. But——

Mr. BUYER. But it's——

General CHIARELLI. But, it——

Mr. BUYER. Go ahead.

General CHIARELLI. No, I'm just saying, if you look at the details of our legislation, one of the things we did was, we saw that TRICARE used to be good, not so good today, because of actions taken by DOD. Okay? Because they need to save money. We turned to Commissioner Zakheim and said, "Bulletproof this. Set this legislation in a way that, if we can get this through and get this benefit in the hands of these folks, that nobody will be able to do that." He did. I won't give you the specifics of that, but he did in our legislation.

Mr. BUYER. So, my conclusion is, for that military retiree, when they've been at 5 percent—they were at 27 percent, right, and they're at 5 percent today, and we walk them up to 20 over 15 years. They are getting so much more value in a health—in a quality health system that their complaint does—is not legitimate.

Senator COTTON. Yeah, I mean, I think it's important that we all be prepared—Republican, Democrat alike, and the commissioners—to answer these questions, because we will get those questions, and I think we're all in agreement that we all want the same thing for the retirees. We just have to be able to explain to them exactly how the new system will work and how much better the package could be for them, despite the discrete changes they see in their lives.

Mr. MALDON. Senator, I think that it is fair to say, though, that the retirees—in all of the travel that we did across the country in townhall meetings, into sessions, and public hearings, and so forth—retirees basically—they told us that they didn't mind seeing an increase, frankly, in that cost sharing, as long as they got value for it. They wanted to make sure there was improved value for it. I think that's what we have provided in those recommendations that we've——

Senator COTTON. Yes.

Mr. MALDON.—made.

Senator COTTON. Thank you.

Senator GRAHAM. Thank you all very much.

So, let's hear some—from retirees. Y'all are next.

Thank you very much.

Next panel, please. [Pause.]

Thank you all very much. Could you introduce yourselves, starting from the—my left to the right?

Ms. RAEZER. Hi, Mr. Chairman. I'm Joyce Raezer, with the National Military Family Association.

Admiral RYAN. Norbert Ryan, with the Military Officers Association of America.

Mr. SNEE. Retired Master Chief Tom Snee, Fleet Reserve Association, sir.

General HARGETT. Gus Hargett, National Guard Association (NGAUS).

Senator GRAHAM. Thank you all.

I will defer my opening statement and allow Senator Gillibrand to say anything she would like.

Senator GILLIBRAND. Thank you for your service. Thank you for being here. We look forward to your testimony.

Senator GRAHAM. Speaking of military retirees—Senator McCain, would you like to say anything?

Chairman MCCAIN. I'm retired. [Laughter.]

Senator GRAHAM. Okay. With that insight, we'll let the panel move forward.

So, just——

STATEMENT OF JOYCE W. RAEZER, EXECUTIVE DIRECTOR, NATIONAL MILITARY FAMILY ASSOCIATION

Ms. RAEZER. Okay, thank you very much, Mr. Chairman and Ranking Member Gillibrand, Senator McCain. We appreciate the opportunity to speak on behalf of National Military Family Associa-

tion and the families we serve about the healthcare proposals of the Military Compensation and Retirement Modernization Commission.

We thank the commissioners for their thoughtful approach, outreach, and dedication to obtaining input from troops and their families.

Military families deserve nothing less than the best possible health coverage and care. They also expect the readiness of their servicemember to perform the mission as well as the readiness of their medical providers to meet the challenges of the battlefield in its aftermath to be a priority.

We agree with—our association agrees with the commissioners who have testified that the current TRICARE benefit and system to deliver that benefit is unsustainable. Budget pressures continue to diminish the benefit, delay access, and threaten military medical readiness in what has been DOD's most frequently proposed reform: raise the fees charged to beneficiaries. When we asked for their input last year for the Defense Department's military health system review, families cited bureaucratic hassles to obtain referrals, lack of continuity of care, inability to obtain timely care, and a lack of coverage for certain services.

We do know that many families remain satisfied with TRICARE, the care they receive and the low cost of that care. But, what could happen to that care when financial pressures take a greater toll on the military hospitals or the TRICARE benefit over time? Our association is open to other healthcare options for military families because DOD has been well aware of many TRICARE problems—in some cases, for years—but has failed to take corrective action. We support, in principle, the concept of moving military families to high quality commercial health plans as a way to improve access to providers and offer more coverage options that match families' needs, but we need more information.

Military families are concerned, as you are, Mr. Chairman, about what would happen to out-of-pocket costs. Even when assured that the proposed basic allowance for healthcare would be set to ensure most Active Duty families have no additional cost, families are unconvinced. They cite recent changes to the basic allowance of health—housing formula as evidence the healthcare allowance could become a target for cost-cutting. They worry how a formula based on averages will support larger-than-average families or those with a family member with a chronic or a catastrophic health condition, as you mentioned, Senator Gillibrand. They also—the families of the wounded also cited the same kind of questions that you are asking, so appreciate you asking those. Many families tell us the cost proposed for retirees and their families are too high, despite the gradual ramp-up.

In our written statement, which we've submitted for the record, we've outlined many logistical challenges involved in implementing TRICARE Choice and the need for families to have the tools they need to make informed decisions. We do believe the Commission's proposal does contain important protections for families, protections they don't have now, but which must be in—written into any statute implementing the changes.

Implementation plan must also address unique circumstances of military life. For example, FEHBP plans only cover Applied Behavioral Analysis (ABA) therapy for autistic children if a State requires that coverage. A unique circumstance of military families would be, we would need to see that coverage in any plan offered to military families. Change also demands an analysis of the potential impact on military hospitals to avoid unintended consequences for beneficiaries and military medical readiness.

I would like to touch briefly on one additional recommendation from the Commission, because of its relation to healthcare, which is recommendation 7, to align the services offered under the Extended Care Health Option, ECHO, to those of State Medicaid waiver programs. The ECHO benefit is currently underutilized because of bureaucratic requirements involved in obtaining some services, such as respite care, and a mismatch between the benefit and what families experience that they need. This match—mismatch forces families to apply for State Medicaid waiver programs and get stuck on waiting lists whenever they move to a new State. Adopting the Commission's recommendation would provide for better continuity and coverage of services.

In an era of budget constraints, when military families see any proposed change in their benefits as just another attempt to cut costs, it's important to rebuild their trust and show them their service is valued. We hope the Commission's proposals prompt a thorough discussion of how to deliver the best health benefit possible for military families.

Questions you ask about—and others ask about the Commission's proposals should also be asked about the current system. How does the structure promote medical readiness? How does it ensure timely access and quality care at the best possible price for both beneficiaries and the government? Now is the time to have that conversation. So, thank you for beginning it.

[The prepared statement of Ms. Raezer follows:]

PREPARED STATEMENT BY THE NATIONAL MILITARY FAMILY ASSOCIATION

EXECUTIVE SUMMARY

The National Military Family Association (NMFA) appreciates the creation by Congress of the Military Compensation and Retirement Modernization Commission (MCRMC or the Commission) and we thank the commissioners and their staff for their work over the past 18 months.

Recommendation 5: Ensure servicemembers receive the best possible combat casualty care by creating a joint readiness command, new standards for essential medical capabilities, and innovative tools to attract readiness-related medical cases to military hospitals.

Recommendation 6: Increase access, choice and value of health care for active duty family members, Reserve component members, and retirees.

READINESS FIRST

The MCRMC recognizes the Military Health System's (MHS) dual mission by making two separate recommendations aimed at modernizing the MHS. The proposed Joint Readiness Command (JRC) is charged with ensuring servicemembers receive the best possible combat casualty care while the TRICARE Choice concept proposes a new way to deliver the health benefit. We agree with the MCRMC assessment that the two proposals are interdependent. While the JRC and TRICARE Choice recommendations must be in sync, the MHS must start with maintaining and improving readiness as the primary objective of any modernization proposal. Military families expect the readiness of their servicemembers to perform the mis-

sion, as well as the readiness of their medical providers to meet the medical challenges of the battlefield and its aftermath, to be a priority.

NATIONAL MILITARY FAMILY ASSOCIATION POSITION ON TRICARE CHOICE

The Commission's health care proposal merits further study and serious consideration. Offering military families a selection of high quality commercial health plans could provide them with better access to high quality care, a more comprehensive set of benefits, and the ability to tailor coverage options based on individual family needs. Our Association believes military families could benefit from increased choice in health care options.

While our Association supports, in principle, the concept of moving military families to high quality commercial health plans, more information and analysis are needed before we can fully endorse the Commission's health care proposal. The MCRMC report raises several questions and areas of concern. Some segments of the military family community will incur significantly higher out-of-pocket costs versus the current system. Implementation details are sparse for important aspects of the plan. Most importantly, we believe a change of this magnitude demands a more thorough analysis of the potential impact on MTFs to avoid unintended consequences for beneficiaries and military medical readiness.

We agree with Commissioners who have testified before Congress that TRICARE—both the benefit and the system to deliver the benefit—is unsustainable as currently structured. Specifically, TRICARE's beneficiary satisfaction and fiscal sustainability have both declined. Given fiscal constraints, future improvements to address beneficiary dissatisfaction are unlikely. In fact, further dilution of the TRICARE benefit seems inevitable. Therefore, we are receptive to alternative ways of delivering the military health care benefit to families.

Our Association believes growing TRICARE beneficiary dissatisfaction and increased cost pressures warrant a reexamination of how DOD delivers the health benefit to military families.

MCRMC RECOMMENDATIONS WE SUPPORT

- Recommendation 7: Improve Support for Servicemembers Dependents with Special Needs
- Recommendation 10: Improve Access to Child Care on Military Installations
- Recommendation 13: Ensure Servicemembers Receive Financial Assistance to Cover Nutritional Needs by Providing Them Cost-Effective Supplemental Benefits
- Recommendation 14: Expand Space-Available travel to more families of Servicemembers
- Recommendation 15: Measure how the Challenges of Military Life Affect Children's School Work by Implementing a National Military Dependent Student Identifier

We support the proposal to improve support for dependents with special needs, reducing their reliance on State programs that very few are able to access. We thank the Commission for recognizing the importance of child care for the readiness of servicemembers and their families. Making access to Federal nutrition programs easier will help servicemembers and their families meet their nutritional needs. We have supported the need for a Military Student Identifier for several years as a means of tracking graduation rates and other milestones for military children as they move from one school district to another.

RECOMMENDATIONS WE CANNOT SUPPORT

- Recommendation 2: Provide more options for servicemembers to protect their pay for survivors
- Recommendation 11: Safeguard education benefits for servicemembers by reducing redundancy and ensuring the fiscal sustainability of education programs.

We cannot support the Commission's recommendation on the Survivor Benefit Plan (SBP), as it does nothing to eliminate the SBP–DIC offset for today's survivors and imposes additional costs on some of the most vulnerable military families. We believe Congress should preserve the full Post 9–11 GI Bill for military families whose servicemembers have already transferred the benefit.

RECOMMENDATIONS REQUIRING FURTHER STUDY

- Recommendation 1: Help more servicemembers save for retirement earlier in their careers, leverage the retention power of traditional Uniformed Service retirement, and give the Services greater flexibility to retain quality people in demanding career fields.
- Recommendation 3: Promote servicemembers' financial literacy by implementing a more robust financial and health benefit training program.
- Recommendation 9: Protect both access to and savings at Department of Defense commissaries and exchanges by consolidating these activities into a single defense resale organization.

The proposals for the new retirement system and the health care proposal call for servicemembers and their families to make responsible choices that will require a robust financial training program. We wonder how DOD and the Services will accomplish this financial training for both the servicemember and his/her spouse. We also have concerns about the proposal to merge commissary and exchange operations and worry about the effect this change would have on the military resale system. We will seek more information on how these proposals could be implemented and encourage Congress to do the same.

Chairman Graham, Ranking Member Gillibrand, and distinguished members of the subcommittee, the National Military Family Association (NMFA) thanks you for the opportunity to present testimony concerning recommendations of the Military Compensation and Retirement Modernization Commission's (MCRMC or the Commission) report. Our primary consideration as we read the report was the impact on the quality of life of military families—the Nation's families. We are concerned about the long-term viability and availability of the benefits, programs, and resources that help servicemembers and their families maintain readiness. We appreciate the Personnel Subcommittee's recognition of the service and sacrifice of these families. Your response through legislation to the ever-changing need for support has resulted in programs and policies that have helped sustain our families through more than a decade of war.

Our Association appreciates the creation of the Commission by Congress and we thank the commissioners and their staff for their work over the past 18 months. Their task, to conduct a holistic evaluation of the entirety of the military compensation system, has been a daunting one. Indeed, in our statement before the Personnel Subcommittee of the Senate Armed Services Committee last year, we requested that Congress delay making any substantial legislative changes to personnel policies until the Commission had finished their study. Now it is our turn to comment on the recommendations the Commission has made in their report.

We thank the Commissioners and their staff for seeking insights from our Association and others during all stages of the Commission's process. We surveyed military families for their input and concerns. We prepared a statement and were invited to testify as part of a panel before the Commission in November 2013 to share what we had heard from military families. We encouraged military families to attend the town hall sessions with the commissioners in their localities. We met with commission staff members on numerous occasions to answer questions and to share information. Since the release of the Commission report, we continued to elicit the thoughts of military families on the recommendations.

The main focus of our statement today will be on the Commission's health care recommendations. Additionally, we appreciate the opportunity to share our thoughts on other pertinent recommendations that we feel impact military families. We hope our analysis will be useful to you as you weigh the merits of the recommendations and think about implementation.

MCRMC HEALTH CARE RECOMMENDATIONS

Recommendation 5: Ensure servicemembers receive the best possible combat casualty care by creating a joint readiness command, new standards for essential medical capabilities, and innovative tools to attract readiness-related medical cases to military hospitals.

Recommendation 6: Increase access, choice and value of health care for active duty family members, Reserve Component members, and retirees.

BACKGROUND: THE DUAL MISSIONS OF THE MILITARY HEALTH SYSTEM

The Military Health System (MHS) is unique in that it has dual readiness and benefit provision missions. The MHS readiness mission must achieve both a medically ready fighting force that is healthy and capable of deploying as needed and a ready medical provider force capable of delivering health and combat-casualty care

for servicemembers in operational environments. The MHS benefit provision mission is responsible for providing the earned health care benefit to family members, retirees, and survivors. The two missions intersect when military medical personnel provide care to family members and retirees in the Military Treatment Facilities (MTFs) honing their medical skills in the process.

The MCRMC recognizes the MHS dual mission by making two separate recommendations aimed at modernizing the MHS. The proposed Joint Readiness Command (JRC) is charged with ensuring servicemembers receive the best possible combat casualty care while the TRICARE Choice concept proposes a new way to deliver the health benefit. In both recommendations, the MCRMC acknowledges that the two proposals are interdependent, but cites few—if any—concerns on how one might negatively impact the other.

With our Association's mission and expertise in advocating for military families, we have clear perspectives on how the MCRMC's proposals might impact beneficiaries. However, we also have concerns about how these recommendations could affect the MTFs' future viability and the ability of the MHS to achieve its military medical readiness goals. We realize that while the JRC and TRICARE Choice recommendations must be in sync, the MHS must start with improving readiness as the primary objective of any modernization proposal.

NATIONAL MILITARY FAMILY ASSOCIATION POSITION ON TRICARE CHOICE

The Commission's health care benefit proposal merits further study and serious consideration. Our Association believes military families could benefit from increased choice in health care options. Offering military families a selection of high quality commercial health plans could provide them with better access to high quality care, a more comprehensive set of benefits, and the ability to tailor coverage options based on individual family needs.

While our Association supports, in principle, the concept of moving military families to high quality commercial health plans, more information and analysis are needed before we can fully endorse the Commission's health care proposal. The MCRMC report raises several questions and areas of concern. Some segments of the military family community will incur significantly higher out-of-pocket costs versus the current system. Implementation details are sparse for important aspects of the plan. Most importantly, we believe a change of this magnitude demands a more thorough analysis of the potential impact on MTFs to avoid unintended consequences for beneficiaries and military medical readiness.

WHY IS OUR ASSOCIATION OPEN TO CHANGING OR DISMANTLING TRICARE?

We agree with Commissioners who have testified before Congress that the TRICARE status quo is unsustainable. TRICARE—both the benefit and the system in place to deliver that benefit—faces pressure on multiple fronts and beneficiaries will continue to feel that pressure as they access care and in the cost of that care. Specifically, TRICARE's beneficiary satisfaction and fiscal sustainability have both declined. Congress has directed DOD to find efficiencies in the MHS. While it has adopted some better business practices, DOD's most-frequently-proposed "efficiency" seems to be raising beneficiary cost shares. Given fiscal constraints, future improvements to address beneficiary dissatisfaction are unlikely. In fact, further dilution of the current TRICARE benefit seems inevitable. Therefore, we are receptive to alternate ways of delivering the military health care benefit to families.

BENEFICIARY DISSATISFACTION

The Commission's findings regarding TRICARE beneficiary dissatisfaction are on point. Many military families encounter difficulties in using the TRICARE benefit. Among the most common complaints are:

- Access Challenges:
  - TRICARE's cumbersome referral and authorization process is not only a hassle, but often leads to treatment delays. These are particularly problematic for a highly mobile population that must endure the referral and authorization process after each PCS simply to continue already established specialty care. Military family members with chronic conditions cite examples that the cumulative effect of repeated treatment interruptions has had a negative impact on their long-term health outcomes.
  - Limited provider networks pose challenges to families seeking care. Network provider shortages are more pronounced in certain areas of the country and with certain specialties, particularly behavioral health care.

- Inadequate access standards and insufficient measures within many MTFs mask beneficiaries' (including active duty servicemembers') reported difficulties in obtaining appointments. This disconnect was highlighted in the Military Health System Review ordered by Secretary of Defense Chuck Hagel in 2014.

- Coverage Issues:

  - TRICARE is slow to cover emerging technologies and treatment protocols. Families frequently complain that TRICARE does not cover services commonly reimbursed by commercial plans such as molecular diagnostic tests and intensive outpatient programs for mental health issues.
  - TRICARE's pediatric coverage is also problematic. TRICARE is authorized to approve purchased care only when it is "medically or psychologically necessary and appropriate care based on reliable evidence." The Defense Health Agency's (DHA) hierarchy of reliable evidence includes only "published research based on well-controlled clinical studies, formal technology assessments, and/or published national medical organization policies/positions/reports." There is no doubt that evidence of effectiveness is a cornerstone of medical necessity, yet such tightly prescribed data for children is not always readily available. Pediatric providers are adamant advocates of robust research for children's health needs, but the reality is strict adherence to this adult-based standard of reliable evidence results in military children being denied care and treatment that is widely accepted and practiced elsewhere in the health care system.

- Lack of Choice:

  - TRICARE's uniform benefit means that military families cannot choose from various coverage options to best meet their needs. This is frustrating for families who could benefit from nontraditional care such as chiropractic.
  - Current Reserve component options pose problems for families during mobilization/demobilization. Switching to TRICARE when the servicemember is activated can result in disruptions in care, while maintaining the servicemember's employer-sponsored health insurance can lead to significant out-of-pocket costs. We have long advocated giving National Guard and Reserve members more flexibility to maintain their employer-sponsored coverage for their families during activation.

- Customer Service:

  - TRICARE is slow to adopt customer service innovations from the private sector such as the Nurse Advice Line. We advocated for a nurse advice line for several years and many commercial health plans offered nurse advice lines long before DHA rolled out their version in 2014.
  - TRICARE's contracting process leads to customer service problems during transitions between regional contractors. In April 2013, military families experienced issues with referral authorization and customer service during the West Region transition to a new managed care support contractor. These issues were compounded by what the Government Accountability Office determined was a lack of oversight by DOD.[1] It took months before beneficiary support was running smoothly under the new contractor.
  - TRICARE beneficiary communications are inadequate particularly when dealing with coverage changes. There are numerous instances of TRICARE implementing coverage changes without notifying beneficiaries and/or providers, resulting in beneficiary confusion and, in some instances, significant out-of-pocket expenses. For instance in January 2013, TRICARE ceased reimbursement for lab-developed tests including prenatal and preconception cystic fibrosis screenings. They failed to notify beneficiaries and providers that they were no longer covering this prenatal screening test that has been the standard of care for over 10 years. As a result, these tests were not reimbursed and some beneficiaries faced $800 in out-of-pocket charges.

One main reason we support the MCRMC's concept of shifting military families to commercial health plans is that DOD has been well aware of these TRICARE problems, in some instances for years, but has failed to take corrective action.

TRICARE's pediatric coverage is a prime example of DOD's failure to address known issues. Based on urging from pediatric health care stakeholders, the National Defense Authorization Act (NDAA) for Fiscal Year 2013 mandated a DOD review of military kids' health care and related support. That report, Study on Health Care

[1] More-Specific Guidance Needed for TRICARE's Managed Care Support Contractor Transitions GAO–14–505: Published: Jun 18, 2014. Publicly Released: June 18, 2014.

and Related Support for Children of Members of the Armed Forces, identified significant gaps and areas for clarification related to TRICARE's pediatric reimbursement policies. The TRICARE for Kids Stakeholder Coalition, a group of pediatric provider organizations, military and veterans' service organizations (including our Association), disability groups, and military families, has urged DOD to share their plans for implementing solutions and help us identify areas where legislative fixes are necessary. Since the study's release in July 2014, we have met with DHA once to share our reactions to the report, but have not heard any details on next steps. DHA's seeming inability to move forward in a timely manner and engage in transparent communication lowers stakeholder and beneficiary confidence that improvements are possible.

Any discussion of beneficiary dissatisfaction must differentiate between TRICARE as a whole and the direct care system. While we believe most MCRMC findings on TRICARE beneficiary satisfaction are accurate, the report contains some examples (e.g., never seeing the same primary care provider or the inability to choose your providers) that military families tell us are issues most often in the direct care system, not necessarily TRICARE as a whole. It is important to note that the MCRMC's TRICARE Choice proposal does not address beneficiary complaints regarding the direct care system other than by allowing dissatisfied beneficiaries to seek care somewhere else in the hope competition will incentivize the MTFs to improve.

Additionally, it is important to acknowledge there is a segment of the beneficiary population that is satisfied with the current TRICARE system. Some have been fortunate enough never to experience the problems outlined above. Others accept these issues as part and parcel of getting "free" health care. As advocates for military families we focus on solving beneficiary problems and improving the Military Health System but, in the course of our work, we also hear from families who are content with the status quo and won't relate to the dissatisfaction areas outlined in the MCRMC's report. Our concern for these families centers on what could happen to their care if financial pressures take a greater toll on the MTFs or the TRICARE benefit over time. If the status quo is unsustainable, what will happen to their satisfaction with the system and the quality of their care?

FISCAL SUSTAINABILITY

Year after year, DOD contends that the TRICARE program is fiscally unsustainable as currently structured. Officials highlight the limits Congress has placed on beneficiary cost shares while expanding benefits (e.g., TRICARE for Life). They cite statistics showing the health care budget is growing as a percentage of overall DOD spending. They contend that growing health care costs will limit DOD's ability to fund readiness and modernization. DOD's statistics can be debated, but there is no doubt about the relentless pressure to erode the TRICARE benefit by increasing fees and reducing available resources to the system.

The Defense Health Agency (DHA) points to purchased care as the largest driver of military health care spending. As currently configured, TRICARE has limited options for reducing purchased care spending in ways that won't negatively impact beneficiaries. TRICARE contracts are configured such that providers and beneficiaries have minimal incentives to manage utilization. In fact, certain TRICARE and MTF policies drive beneficiaries to more expensive venues for care. For instance, when acute care appointments are unavailable at the MTF (either because the MTF is closed or completely booked), TRICARE requires a referral and authorization to seek Urgent Care from a network provider. Some MTFs go a step further and simply refuse to give any referrals to network Urgent Care. Beneficiaries who find themselves in this situation often have no choice but to seek more expensive care at the Emergency Room.

Despite DOD initiatives to become more efficient, cost cutting pressures will continue. Our Association fears attempts to reduce purchased care spending will result in erosion of network provider access and questionable coverage policies. Provider reimbursement rates will continue to decline, resulting in fewer providers participating in the TRICARE network. Alternatively, providers might further limit the number of TRICARE patients they will see due to low reimbursement rates. The result will be diminished access to care for military families. While maintaining the current TRICARE program gives the appearance of delivering a promised benefit, we fear that ongoing cost cutting measures will reduce TRICARE's value in ways that might not be readily apparent to beneficiaries until it's too late and they have no other options.

Our Association believes that growing TRICARE beneficiary dissatisfaction and increased cost cutting pressures warrant a reexamination of how DOD delivers the health benefit to military families.

EVALUATING TRICARE CHOICE: ADVANTAGES FOR MILITARY FAMILIES

Our Association believes the Commission's health care proposal has the potential to provide military families with a more robust and valuable health care benefit than they have today. Offering families a selection of high quality commercial health plans could provide them with better access to high quality care, a more comprehensive set of benefits, and the ability to tailor coverage options based on individual family needs. We also appreciate the Commission's efforts to maintain minimal out-of-pocket costs for active duty families. We also thank the Commission for its recommendation to keep the TRICARE for Life benefit for our Medicare-eligible beneficiaries as it is today. TRICARE for Life is working the way Congress intended.

Our Association supports the concept of transitioning active duty military families, as well as working-age retirees and their families and survivors, to a high quality DOD health benefit program since it would offer the following advantages:

- Enhanced Access to Care:
  - TRICARE Choice promises to offer beneficiaries more robust provider networks with greater access to primary care and specialists. Since commercial health plans reimburse providers at market rates versus the discounted Medicare rates TRICARE offers, they are able to attract more providers to their networks.
  - TRICARE Choice should streamline access to specialty care. Many commercial plans allow beneficiaries to direct their own health care. Even families who elect an HMO type plan should find less cumbersome referral and authorization processes than they currently face with TRICARE.
  - A selection of national commercial health plans should streamline the transition of care during most PCS moves. Under TRICARE Choice, families will not have to modify their enrollment when moving from one area of the United States to another, assuming they have selected a TRICARE Choice plan with national coverage.
  - Barriers to Urgent Care will be eliminated with TRICARE Choice. Families will be able to elect plans that do not require a referral and authorization for Urgent Care.
  - Beneficiaries retain access to MTFs for medical care with TRICARE Choice. Many military families are familiar and comfortable with MTFs. Others value MTF providers' cultural competency and sensitivity to military family challenges. It is important that TRICARE Choice offers beneficiaries continued access to MTF care.
- Better Coverage Policies: Commercial health plans should reduce problems with TRICARE coverage, such as questionable pediatric reimbursement policies and lack of coverage for emerging technologies and treatment protocols. Coverage decisions would no longer be subject to rigid TRICARE regulations regarding medical necessity, the hierarchy of reliable evidence, and, in some cases, the additional step of requiring Congressional approval for a new benefit. While beneficiaries certainly want safe and effective treatment, commercial plans would offer more comprehensive coverage for services and procedures widely accepted by the medical community that don't meet TRICARE's rigid standards. Whether or not a procedure is medically necessary would no longer be a DOD decision.
- Greater Choice:
  - TRICARE Choice would allow military families to tailor coverage to best meet their needs versus the current TRICARE benefit that provides uniform coverage and meets some families' needs better than others.
  - TRICARE Choice plans would offer coverage options that are currently unavailable such as vision, chiropractic, and acupuncture.
  - More robust provider networks should give beneficiaries greater choice in selecting their providers.
  - We appreciate that the MCRMC recognized the patient care management tools used by U.S. Family Health Plan (USFHP). USFHP knows our community and has high satisfaction among beneficiaries. We agree with the MCRMC suggestion that some USFHP plans could continue as TRICARE Choice options for military families since we believe most USFHP families would like to retain their coverage.

- National Guard and Reserve members will have more attractive options under TRICARE Choice.

  • We have long advocated for more flexibility in allowing Guard and Reserve members to retain their employer sponsored health plan for their families while activated. The Basic Allowance for Health Care (BAHC) gives them the option of applying BAHC to their employer plan premiums. This will enable Reserve component families to maintain continuity of medical care during servicemember activation.

  • For families that prefer using TRICARE during activation, a menu of commercial plans will better serve Guard and Reserve members in areas not near a military installation where current TRICARE networks may be particularly weak.

• Minimal Active Duty family out-of-pocket costs (in principle). Although we are not convinced the current MCRMC proposal completely insulates active duty families from excessive medical expenses, we appreciate that the Commission acknowledges the principle of minimal out-of-pocket costs for active duty families and proposes the creation of the Basic Allowance for Health Care to give families a way to cover their health care costs.

Underpinning our assessment of TRICARE Choice advantages is the assumption that the menu of commercial plans would be comparable to or better than those offered via the Federal Employee Health Benefit Program (FEHBP.) We believe this is a valid assumption since the MCRMC uses FEHBP as a point of reference in their report and suggests that the Office of Personnel Management (OPM) manage the DOD program due to their proven track record with FEHBP.

Our Association believes the Commission's TRICARE Choice health care proposal has the potential to provide military families with a more robust and valuable health care benefit than they have today. However, while we are open to the idea of transitioning military families to commercial health plans, the MCRMC report raises questions and concerns that must be addressed before we can fully support the Commission's health care proposal.

EVALUATING TRICARE CHOICE: AREAS OF CONCERN AND CLARIFICATION

First, we believe a change of this magnitude demands a more thorough analysis of the potential impact on MTF caseload to avoid unintended consequences for beneficiaries and military medical readiness. Second, some segments of the military family community will incur significantly higher out-of-pocket costs versus the current system. Third, implementation details are sparse for important aspects of the plan.

1. TRICARE Choice's Impact on MTFs/Military Medical Readiness is Unclear

Even though the MTFs will remain an integral component of military family health care delivery under the MCRMC's proposal, the report contains very few details on the potential impact TRICARE Choice might have on the direct care system. We have the following concerns:

• The MCRMC report contains no analysis of TRICARE Choice's impact on MTF caseload. TRICARE Choice makes two radical changes to beneficiary health care. It introduces a co-pay for MTF treatment and it provides unfettered access to civilian providers. Yet, there is no analysis of the potential impact these changes might have on MTF beneficiary caseload.

  - From a beneficiary standpoint, will DOD still insist on the option of employing "sticks" to drive beneficiaries back into the MTFs if the lower co-pay "carrot" is insufficient motivation? DOD has frequently employed the "stick" approach to pull the patients it needs into the direct care system, most recently in the "MTF recapture" efforts that limited TRICARE Prime beneficiaries' ability to enroll with a civilian network Primary Care Manager even if they had already established a relationship with that doctor. It's been our experience that many military medical providers believe they must maintain the ability to force military families into the MTFs in order to maintain needed skills and patient loads.

  - From a readiness standpoint, what happens if a significant percent of family members and retirees elect to leave the MTF and receive care in the civilian market and the MTFs no longer have means to force them in when they need the bodies for training and maintaining provider proficiencies? Will the MTFs remain viable? The MCRMC recommendation seems to assume MTFs will respond to patients' new opportunities for choice by improving quality and other enhancements to draw beneficiaries in. What happens if their efforts aren't enough?

• The Joint Readiness Command (JRC) is charged with attracting a different mix of medical cases into MTFs to better support combat-care training and medical readiness. We are pleased the Commission emphasized that care for active duty servicemembers is a key part of readiness and so proposed no changes in how they would get their care. We hope the readiness focus they propose will improve the care and readiness of servicemembers for their missions. We understand and appreciate the goal of bringing new Essential Medical Capability (EMC) cases into the MTFs as part of that readiness focus. However, we are skeptical the tools the MCRMC suggests for the JRC will be sufficient in attracting the necessary caseload, particularly if currently enrolled beneficiaries leave the MTFs in great numbers.

- The ability to adjust MTF reimbursement rates is cited as one tool to attract EMC cases, but decisions on where to seek medical care, particularly in trauma and complex cases, typically do not involve price. Since price shopping isn't currently a significant factor in consumer behavior for medical care decisions, we question how much impact alternative prices would have in attracting EMC cases to MTFs.
- Another tool the MCRMC outlines for the JRC is establishing commercial reimbursement rates and associated billing systems, improving authorities, and allowing greater access to veterans and civilians with relevant complex cases and trauma. However, the MTFs would be competing for these cases with established medical systems that employ marketing departments and campaigns as well as established relationships in the local community. Simply opening the MTFs to the broader community may not be enough to attract the desired EMC cases.
- The MCRMC report states that financial incentives, specifically lower co-pays at MTFs versus those for civilian providers, would encourage beneficiaries to seek care at the MTFs. However, beneficiaries currently pay nothing out-of-pocket for MTF care and it is unclear what impact a co-pay will have on beneficiary decisions regarding where to seek care.

• From a JRC implementation standpoint, it is unclear who would be responsible for working out the details at the individual MTF level. Who sets the standards for what services and medical specialties will be available at the MTF? Is that an MTF commander decision? A Service decision? A Joint Medical Command might have had more authority over MTF implementation. It seems there is high potential for inconsistencies and lack of coordination on readiness needs.

• The MCRMC report is unclear on the magnitude of the desired shift from beneficiary care to EMC cases. If the goal is a major shift away from beneficiary care (such as labor/delivery/newborn care), is there sufficient civilian medical capacity to absorb increased demand for care from military families, particularly in remote locations with significant troop concentrations, such as Twentynine Palms, CA; Fort Polk, LA; and Fort Riley, KS?

• TRICARE Choice does nothing to address access and quality issues within the MTFs. Although the MCRMC report highlights areas where beneficiaries are unsatisfied with the direct care system, their proposal does nothing to address those complaints other than to say beneficiaries can now vote with their feet and go elsewhere for care. In fact, the renewed emphasis on combat casualty care skill building, while critically important for military medical readiness, might actually exacerbate problems with care for family members and other beneficiaries. What will the process be for determining the level at which MTFs will participate as network providers in the TRICARE Choice civilian plans and for managing that participation as MTF staffing and focus on the EMCs evolves?

TRICARE Choice introduces radical changes to the beneficiary health benefit with no estimate of the impact on MTF caseload. While the Joint Readiness Command proposal calls for a strategic shift to EMC cases in the MTFs, details on this transition are sparse. We believe a change of this magnitude demands a thorough analysis, including a forecast of beneficiary demand for MTF services under TRICARE Choice and an estimate of the likely increase in EMC cases within the direct care system.

2. Potential for Significant Out-of-pocket Costs

Active Duty Families

The MCRMC report acknowledges that TRICARE Choice will result in increased out-of-pocket costs and these higher costs would effectively reduce overall active duty compensation if they were not offset with the creation of the Basic Allowance

for Health Care (BAHC). Although we appreciate the MCRMC's attempt to address this issue, we are not convinced the current proposal sufficiently insulates active duty families from excessive out-of-pocket health care expenses for the following reasons:

- TRICARE Choice's Catastrophic Cap is Unspecified: A key advantage of the current TRICARE plan is a low catastrophic cap. By limiting annual out-of-pocket expenses to $1,000 per family, the current TRICARE benefit limits the financial risk currently serving families face from health care costs. The catastrophic cap amount for TRICARE Choice plans is not specified, so we have no way of assessing the financial risk families would face under the MCRMC's proposal. We must have details on this element of TRICARE Choice to complete our evaluation.
- Details are Sparse on the Chronic/Catastrophic Program: The MCRMC proposes that active duty families facing chronic or catastrophic conditions and resulting copayments that substantially exceed their BAHC could receive assistance from a new catastrophic fund. But, the report provides very few details on this program. How would eligibility be determined? What process would families follow to apply for the fund? Would there be an appeals process? What portion of costs exceeding BAHC would be reimbursed? There is no mention of adjusting the program based on lessons learned. Implementation must include a mechanism for adjusting policies and processes to ensure the program achieves the desired outcomes. We fear that applying for this fund would become another hurdle for families facing already challenging circumstances. More importantly, given one of the main benefits of TRICARE Choice is removing DOD from the coverage determination process, we are opposed to giving DOD authority over coverage decisions for families with chronic or catastrophic conditions.
- The BAHC Formula Raises Concerns:

  - BAHC is calculated to cover the premium cost share of the health plan selected in the prior year by the median active duty family. This methodology introduces risk that the BAHC will be eroded over time if families scrimp on their choice of plans. We contend there should be a high standard for the type of plan that is appropriate for military families given the impact of family member health on servicemember readiness. The quality of health plans for military families should also be commensurate with the extraordinary sacrifices made by servicemembers and their families. The level of the BAHC should be set based on the costs of plans available for their location in the current year and not on what families chose in the prior year.
  - Under the TRICARE Choice plan, large families become vulnerable to higher out-of-pocket expenses. The portion of BAHC intended to cover out-of-pocket costs is calculated as the average copayment amount by all active duty family member beneficiaries in the prior year. Although details are limited, the MCRMC has confirmed to us BAHC would not vary based on family size. While there would be no difference in family premiums based on family size, a large family will almost certainly incur higher copayment expenses than the "average" family and those additional expenses will not be covered by BAHC. The current TRICARE benefit provides a zero out-of-pocket cost option for health coverage for all active duty families regardless of family size. TRICARE Choice should be modified to minimize out-of-pocket costs for larger than average families.

To move beyond the principle of minimal out-of-pocket costs and gain more visibility on the financial impact of TRICARE Choice on actual military families, we would like to see more data on out-of-pocket expenses for a variety of family circumstances (family size plus high/med/low health care utilization) crossed against a variety of plan types to get a better understanding on potential out-of-pocket expenses.

Although the MCRMC states its goal is to minimize out-of-pocket expenses for active duty families to avoid a reduction in overall active duty compensation, several elements of the TRICARE Choice proposal could lead to significant out-of-pocket costs for some families. The BAHC calculation must ensure a baseline of excellent medical coverage with minimal out-of-pocket expenses for all active duty families. The MCRMC must also be more transparent about the risk of out-of-pocket costs by providing specifics on TRICARE Choice plans' catastrophic cap(s) and the chronic/catastrophic program.

Non-Medicare Eligible Retirees

The MCRMC report acknowledges that beneficiaries will incur higher out-of-pocket expenses with TRICARE Choice versus the current benefit. For active duty families, as outlined above, the MCRMC seeks to mitigate these higher costs with BAHC so as to avoid reducing overall active duty compensation. Retirees would not receive BAHC and would thus be fully responsible for premiums and cost shares. The Commission's proposal focuses on the advantages of choice and states that military retirees should pay a lower premium than civilian employees as a recognition of their service. However, it does not address the perceived reduced value of the military retirement package resulting from TRICARE Choice. While our Association has not opposed moderate TRICARE fee hikes in the past, we believe out-of-pocket expenses for retirees under TRICARE Choice could become too high and diminish the value of the earned retirement benefit unless safeguards are written into law.

- Premiums and Out-of-pocket Expenses Will Be Significantly Higher than TRICARE as it stands today: Although the MCRMC report does not provide specifics on premium costs, an ultimate 20 percent premium cost share (after a 15-year ramp-up), higher out-of-pocket expenses, and copays associated with the civilian could be as much as thousands of dollars more per year than retirees currently pay for TRICARE Prime. We agree with the Commission, however, that the availability of additional benefits and automatic coverage of adult children up to age 26 at no additional premium may partly close the gap between what retirees currently pay under TRICARE and what they would pay under TRICARE Choice when fully implemented.
- TRICARE Choice's Catastrophic Cap is Unspecified: A key advantage of the current TRICARE plan for retirees is a low catastrophic cap. By limiting annual out-of-pocket expenses to $3,000 per family, the current TRICARE benefit limits the financial risk military retiree families face from health care costs. The catastrophic cap amount for TRICARE Choice plans is not specified, so we have no way of assessing the financial risk retiree families would face under the MCRMC's proposal. We must have details on this element of TRICARE Choice to complete our evaluation, but it's important to acknowledge that DOD has proposed increases to the retiree catastrophic cap under the current system.

As we have stated, we believe pressures on the current system will result in increased beneficiary costs and so understand an accurate forward-looking "apples to apples" comparison between TRICARE as it might be in 10 years vs. TRICARE Choice does not exist. We do appreciate the Commission recognized the need for a 15-year transition to the 20 percent cost share ceiling for working-age retirees and that they recognized the government's responsibility to absorb a higher level of the premium costs for military retirees than for civilians in recognition of their military service. However, current retirees and currently serving career military members developed an understanding of the value of their retirement health care benefit based on over 2 decades of TRICARE history. Just as higher out-of-pocket costs associated with TRICARE Choice would reduce overall active duty compensation if not offset by BAHC, even higher premium and out-of-pocket costs for non-Medicare eligible retirees reduces the value of the earned retirement benefit package. While we accept the inevitability working age retirees will pay more for their health care in the future, we believe TRICARE Choice, as proposed by the Commission, may go too far in undercutting the earned retirement benefit.

Wounded Warriors/Medically Retired Servicemembers

The MCRMC's TRICARE Choice proposal makes no mention of wounded warriors or medically retired servicemembers. This omission must be addressed before we can fully assess TRICARE Choice. We do have two main concerns regarding TRICARE Choice for wounded warriors as it is currently presented:

- Out-of-pocket Expenses: Currently, non-Medicare eligible medically retired servicemembers receive the same TRICARE benefit as all other non-Medicare eligible retirees. We believe any changes to the TRICARE benefit must maintain minimal out-of-pocket costs for medically retired servicemembers. The MCRMC's TRICARE Choice proposal, with its high out-of-pocket expenses for non-Medicare eligible retirees, is not an acceptable benefit for wounded warriors and their families. We also need more information on how TRICARE Choice plans will work for the families of retired wounded warriors and other military retirees who may receive some or all of their care from the VA or be eligible for Medicare Part B because of their injuries.
- Severely Injured Wounded Warriors: We are disappointed that the MCRMC proposal does not address out-of-pocket expenses the severely wounded currently face to maintain their medical coverage. Specifically, if an individual is

so severely injured that he/she qualifies for Social Security Disability Insurance for 2 years, he automatically qualifies for Medicare Part B. Qualified individuals MUST take Part B in order to maintain TRICARE status. If an individual fails to enroll in Part B, he LOSES both TRICARE and Medicare coverage and must wait an extensive period of time and pay significant penalties to re-enroll. For many severely injured individuals, this means they lose all access to their previous healthcare providers and/or options for other healthcare needs. The current cost for Part B coverage is approximately $110/month. This amount increases regularly.

Our Association requests more information from the Commission on how TRICARE Choice will be configured for medically retired servicemembers and their families. We also ask the Commission to consider the problems the severely wounded face in accessing their health care benefit as part of their modernization proposal.

The MCRMC must be more transparent and detailed about the potential out-of-pocket costs faced by all beneficiary categories.

- The BAHC calculation must be modified to ensure it covers out-of-pocket expenses for an excellent baseline plan for all active duty families regardless of family size.
- TRICARE Choice's out-of-pocket expenses for non-Medicare eligible retirees must not reduce the value of the earned retirement benefit package.
- Finally, consideration must be given to how TRICARE Choice will work for medically retired servicemembers to ensure minimal out-of-pocket costs for wounded warriors and their families.

3. Concerns Regarding TRICARE Choice Implementation Details

Many TRICARE Choice implementation details are lacking in the Commission's proposal. We have identified several issues, which must be addressed to ensure successful implementation of a complex program:

- Ensuring Coverage Meets Unique Military Family Needs: We appreciate that the MCRMC proposal says DOD should provide OPM with recommendations on the unique needs of the eligible Uniform Services beneficiary population. However, we would like assurances on some specifics:
  - For military families who move frequently, a variety of high quality national plans is critical. Selecting a national plan will be the only way for mobile families to avoid a deductible and catastrophic cap reset with each move. National plans will also maintain coverage consistency and lessen disruption and hassle during geographic moves.
  - It is important coverage DOD has already deemed necessary and appropriate for military beneficiaries, via inclusion in the current TRICARE benefit, is part of TRICARE Choice commercial plans. For instance, TRICARE covers Applied Behavior Analysis (ABA) for beneficiaries regardless of location, whereas FEHB plans only cover ABA in States that mandate ABA coverage. ABA coverage that varies from State to State is not suitable for a mobile military population. Similarly, TRICARE offers beneficiaries access to behavioral health care without referral or prior authorization. We would expect similar accommodations for behavioral health care access in TRICARE Choice Plans.
  - It is essential commercial plans and BAHC policies take into account the unique situations military families face. Many families geo-bach—that is, the servicemember lives in a different location from his/her family members due to the spouse's career, kids' education or other considerations. Other families relocate during lengthy servicemember deployments. Policies must be in place to ensure these unique situations do not put military families at risk for higher costs or coverage lapses.
- Beneficiary Education and Communication: TRICARE Choice would require an unprecedented level of beneficiary communication and education.
  - Under TRICARE Choice, servicemembers continue to receive care through the military, but the spouse and family members are covered under the new health plans. Therefore, the servicemember AND spouse must be educated on how to select the best plan for their family. This includes the basics of commercial health insurance (e.g., definitions of premium, deductible, cost share, co-pay), tools to help select the best plan for the family, and scenario planning to help families understand the trade-offs and potential out-of-pocket expenses associated with various options.
  - This education process must be ongoing, as many families will face new health plan choices every 2–3 years with PCS moves. They will not only

need refreshers on the basics of selecting the right health plan, but they will need information on how coverage varies based on location, to include what care will be available through the MTFs as network providers in the civilian plans. MTFs must be involved in the education process.

- Financial Planning Guidance: BAHC paid directly to servicemembers will be difficult to manage for some. It is critical that financial education prompts servicemembers to create a plan for BAHC that helps them apply the allowance to out-of-pocket medical expenses versus other discretionary spending. The success of the Basic Allowance for Housing has been cited as evidence servicemembers can successfully direct an allowance to its intended purpose. However, unlike housing expenses that are stable and regularly recurring, medical bills are highly variable in amount and timing, requiring more sophisticated budgeting skills.

Given the role spouses play in health care decisions and family finances, it is critical that education and communication programs and resources are designed to accommodate spouses as well as servicemembers. Child care and evening/weekend options are critical factors to achieve spouse participation in any in-person classes. If the servicemember is responsible for selecting a plan and that servicemember is deployed, how will the spouse—who in all likelihood will be the person managing the family's use of the health plan—be involved in the decision on which plan to choose?

While all Americans face a learning curve when making health insurance decisions, it is imperative servicemembers and their families are prepared to successfully navigate TRICARE Choice's commercial health plan options. Military families lead complicated, stressful lives. We cannot set them up for additional challenges related to health care and finances. Additionally, the impact of poor choices, including limited access to health care or financial problems associated with unpaid medical bills, has the potential to reverberate beyond the individual family and negatively impact military readiness. Providing effective education on health care choices for servicemembers and their spouses while they on active duty will ultimately benefit them as they make the transition to civilian life after their service.

CONCLUDING THOUGHTS ON THE MCRMC'S TRICARE CHOICE PROPOSAL

Recent media coverage and Congressional hearings, together with the legislative language included in the report, imply the MCRMC report should be viewed as a turnkey plan, ready for implementation. Given the number of unanswered questions regarding the health care proposal, we view the TRICARE Choice proposal as a first step in a needed process toward change. While we believe the MCRMC health care concept has merit and we support the idea of moving military families to high quality commercial health plans, the MCRMC proposal requires much more analysis and concept optimization before it could be implemented. The statute authorizing TRICARE Choice must also set clear baseline standards that ensure families have access to high quality plans that meet their unique needs at the best possible cost.

Furthermore, change of this magnitude will take some time to implement. In the meantime, we encourage Congress and DOD to seek solutions to the many problems described by the MCRMC report as they relate to military family health care. These issues deserve to be addressed without waiting for wholesale change. Ensuring the current system is still held accountable, while developing ideas for the future is a very important way Congress and the DOD can build and repair trust with the families who depend on their military health care benefit.

MCRMC RECOMMENDATIONS WE SUPPORT

We appreciate the opportunity to comment on other recommendations from the Commission report that affect the quality of life of military families.

Recommendation 7: Improve Support for Servicemembers Dependents with Special Needs

EXPAND BENEFITS AVAILABLE THROUGH ECHO

The Commission's proposal to improve support for military families with special needs family members by increasing benefits available through the Extended Care Health Option (ECHO) program is a critical step in easing challenges faced by these families. Our Association supports this proposal without reservation.

Additionally, we ask: (1) Congress consider extending ECHO eligibility to families for 1 year after retirement or separation to ensure they have access to much-needed care and services for their special needs family member, and (2) DOD review procedures for accessing care through ECHO to remove unnecessary requirements and ease the process for vulnerable military families.

Caring for children with complex medical needs can be incredibly expensive. Such children often require nutritional support, incontinence supplies, and other costly items vital to their care but non-medical in nature and therefore not covered by some insurance plans, including TRICARE. Most families in this situation ultimately turn to State Medicaid programs, which provide this kind of assistance through waiver programs to individuals whose families do not qualify based on income. Because the demand for these services far outstrips the supply, lengthy waiting lists to receive assistance are common in most States. For that reason, these services are often out of reach for a military family who must relocate every 2 to 3 years. A military family who places their special needs child on a Medicaid waiver waiting list must start again at the bottom of the waiting list whenever they move to a new State.

The ECHO program was designed in part to address this imbalance, by allowing military families with a special needs child or spouse to access non-medical services not covered under TRICARE. According to TRICARE's website, benefits covered under ECHO include "training, rehabilitation, special education, assistive technology devices, institutional care in private nonprofit, public and State institutions/facilities and, if appropriate, transportation to and from such institutions/facilities, home health care and respite care for the primary caregiver of the ECHO-registered beneficiary." However, in practice military families have found it difficult to obtain services through the program.

This reality was reflected in TRICARE's May 30, 2013 report, "The Department of Defense Report to Congress on Participation in the Extended Care Health Option (ECHO)," detailing military families' usage of the ECHO benefit. In 2012, DOD reported 99 percent of funds expended through the ECHO program were spent on Applied Behavioral Analysis (ABA) therapy and ECHO Home Health Care (EHHC).[2] Although these services are important and popular with special needs families, it is impossible to see this statistic and not wonder why families are not accessing the long list of other services ostensibly available to them under ECHO.

In our Association's view, there are two reasons why special needs military families are not utilizing the ECHO program. First, as the Commission also noted, ECHO simply does not cover many of the products and services needed by special needs families. For example, many families need larger than normal diapers for their disabled children. ECHO deems diapers a convenience item and will not pay for them, although State Medicaid programs regularly pay for incontinence supplies. Aligning ECHO benefits more closely with State Medicaid programs, as the Commission recommends, would provide much needed support to special needs military families.

ECHO services are also under-utilized due to the procedural hurdles TRICARE has put in the path of those seeking benefits. An example is the policy regarding respite care. For families with special needs children, the time away afforded by respite care is vital. Access to quality respite care allows families to run errands, spend time with other children, and simply recharge. Respite care is ostensibly available through the ECHO program, but TRICARE policies limit its utility. Specifically, TRICARE requires families use another service through ECHO in any month that respite care is also provided. We are grateful the Commission recommended eliminating this requirement, which creates an artificial barrier preventing families from accessing needed care.

We have heard reports that special needs families may soon find their access to respite care limited as the military Services eliminate or reduce respite care they provide through the Exceptional Family Member Program (EFMP). Each Service operates its own EFMP program designed to assist special needs families with assignment coordination, referral and family support. As part of their family support, the Services' EFMP programs provide respite care for military families with eligible special needs family members. We have been told that the Army intends to eliminate this program and the other Services may soon follow suit. Given this cutback, it is even more important to ensure families can access much-needed respite care using their ECHO benefit.

NEED FOR TRANSITIONAL CARE

We also note the ECHO program is only available to currently serving military families. Families who transition out of the military, whether through retirement or separation, immediately lose eligibility for ECHO benefits. This abrupt cutoff

[2] The Department of Defense Report to Congress on Participation in the Extended Care Health Option (ECHO), May 30, 2013, available at http://tricare.mil/tma/congressionalinformation/downloads/ExpansionEvaluationEffectivenessTRICAREProgramECHO.pdf

places an undue burden on families who are already coping with the stress of caring for a special needs family member. While families may eventually be able to access services through State Medicaid programs, they often face long waiting lists, which leads either to gaps in treatment or financial hardship for a family trying to pay for needed care. As more servicemembers and families transition out of the military, this problem will become more widespread. To ease the hardship for families in this situation, we recommend ECHO eligibility be extended for 1 year following separation or retirement to provide more time for families to obtain services in their communities or through employer-sponsored insurance.

IMPEDIMENTS TO ACCESSING ECHO

Our Association has identified other TRICARE policies that inhibit families' use of ECHO. TRICARE mandates families first use public assistance where available before accessing services through ECHO and requires families to submit a Public Facility Use Certificate explaining why public assistance is unavailable or insufficient when requesting ECHO benefits. Families seeking a respite care provider must find one who meets the strict requirements for such providers set by ECHO. These conditions can be confusing for families already coping with the stress of caring for a disabled family member. We suggest Congress review this and other requirements associated with accessing benefits through ECHO as you evaluate the MCRMC proposal, with the goal of streamlining the process for special needs military families.

Recommendation 10: Improve Access to Child Care on Military Installations

MILITARY FAMILIES NEED AFFORDABLE, ACCESSIBLE CHILD CARE WHERE THEY LIVE

We are gratified the Commission recognized the importance of high quality, affordable child care to military families. Their recommendation to exempt child care providers from furloughs and hiring freezes is a common sense solution to an issue that has been a source of anxiety for families during recent budget crises. We also appreciate the Commission's concern about the lengthy waiting lists families often confront when seeking care at installation Child Development Centers (CDCs) and agree that funds should be available to expand or modify facilities to increase the number of child care spaces. However, we also note a large number of military families—more than 70 percent—do not reside on an installation. For these families, on-base CDCs may not be the best solution.

According to the 2013 Demographics Profile of the Military Community, more than 40 percent of servicemembers have children. Of the nearly two million military-connected children, the largest cohort—almost 38 percent—is under age five.[3] Like all working parents, servicemembers with young children need access to affordable child care in order to do their jobs. However, the military lifestyle comes with unique challenges and complications for families. Servicemembers rarely live near extended family that might be able to assist with child care. Their jobs frequently demand long hours, including duty overnight. They are often stationed in communities where child care is expensive or unavailable.

For all of these reasons, many military families rely on child care provided through their installation (either CDCs or in Family Child Care (FCC) homes). Yet, the demand for child care exceeds the supply. Statistics cited by the Commission are supported by the experiences military families share with us: in many locations, the waiting list for care is so long that the CDC is essentially not an option for many families. The problem is exacerbated by the frequent moves associated with military life. Following each Permanent Change of Station (PCS) move, a military family must restart the process of looking for care in their new community and frequently find themselves again at the bottom of the waiting list.

There are three factors contributing to the long waiting lists at installation CDCs: lack of physical space, staffing shortages, and wait list management. We support the Commission's recommendation that Congress reestablish the authority to use operating funds to construct or renovate CDCs. Streamlining the process to build new facilities and/or renovate existing ones could provide the physical space to ensure that more military families can access installation child care. Although, we wonder where funding to operate these new facilities will be found.

We also welcome the Commission's simple, common-sense recommendation to exempt child care providers from hiring freezes and furloughs. High rates of employee turnover are not uncommon at child care centers, both at DOD facilities and in the

[3] 2013 Demographics Profile of the Military Community. Rep. Office of the Deputy Assistant Secretary of Defense (Military Community and Family Policy), http://www.militaryonesource.mil/12038/MOS/Reports/2013-Demographics-Report.pdf

civilian world. However, high turnover combined with a hiring freeze can make it impossible for CDC directors to staff their facilities appropriately. We also heard from many families in 2013 concerned about how they would find child care if CDC employees were furloughed due to sequestration. No military family should have to worry about losing needed child care because of a budget crisis.

We agree with the Commission that CDCs should improve the procedures they use to manage their waiting lists. Currently lists are unreliable, making it difficult for families to know whether it is worth waiting for a space to open at the CDC or if they should seek care elsewhere. At the same time, if the Services do not have reliable information about the length of their waiting lists it is impossible to ascertain if they are meeting their own standards or allocating resources appropriately.

As stated above, less than 30 percent of military families live on installations, which can make installation child care an inconvenient choice. Many families prefer to seek care near their homes or close to a spouse's job. However, families seeking child care in civilian communities often find the costs are extremely high, much more so than on-base care. For those families, the fee assistance program offered by the Services is invaluable, allowing them to afford quality child care in their communities. We urge the Services to continue funding this program and to expand eligibility so families are assured of finding quality child care regardless of their location.

Recommendation 13: Ensure Servicemembers Receive Financial Assistance to Cover Nutritional Needs by Providing Them Cost-Effective Supplemental Benefits

MEETING MILITARY FAMILIES' NUTRITIONAL NEEDS

We are pleased the Commission chose to address the issue of financial assistance for low-income military families. We have long recognized that, while the majority of military families are able to make ends meet, some families struggle financially. This is especially true of junior enlisted servicemembers with larger families. The Family Subsistence Supplemental Allowance (FSSA) was designed to assist those families by increasing their household income until it reaches 130 percent of the Federal poverty level. However, we agree with the Commission that military families needing nutrition support are better off seeking this aid through the Department of Agriculture (USDA) Supplemental Nutrition Assistance Program (SNAP), both because it is often easier to qualify for SNAP and because that program provides a higher benefit. For this reason, we agree with the Commission that the FSSA program should sunset in the United States, although the program must be maintained overseas. We also agree that more information about the number of military families relying on SNAP is needed. In addition, we also ask Congress to evaluate available nutritional support programs to determine if they are adequately meeting the needs of low-income military families, whatever their location.

The Commission reports just 285 servicemembers received FSSA benefits during fiscal year 2013. At the same time, the number of families receiving benefits through SNAP was much higher, according to figures cited by the Commission based on estimates by the U.S. Department of Agriculture. We agree the low number of families seeking aid through FSSA may be due in part to the application process, which requires the approval of the servicemember's commanding officer. The anonymity of applying for food stamps and not having your command know about your financial straits may appeal more to the servicemember.

While SNAP is indeed a significant help to many military families, we note the program's inclusion of Basic Allowance for Housing (BAH) paradoxically means families living in high cost locations do not qualify for assistance while families of similar size and servicemember rank do in places with lower housing costs. Because BAH only covers the cost of rent and utilities, it does not help families with the higher cost of food, gasoline, and other necessities in areas such as Hawaii, southern California, and Washington, DC. We ask Congress to evaluate the SNAP program to see if this disparity can be addressed in a way to better meet the needs of low-income military families. We agree DOD needs better visibility over data that can provide information on families on the financial edge who would benefit from food support programs. They must analyze the data to determine what other assistance might be needed to support these families.

Recommendation 14: Expand Space-Available travel to more families of Servicemembers

SUPPORTING MILITARY FAMILIES DURING DEPLOYMENTS

We appreciate that the Commission listened to military families in the town halls by responding to their requests for greater access to Space-Available travel during

separations. We believe that the ability to change this policy already exists, but raising the issue in the Commission report may bring it higher visibility.

Recommendation 15: Measure how the Challenges of Military Life Affect Children's School Work by Implementing a National Military Dependent Student Identifier

TRACKING MILITARY CHILDREN'S EDUCATION PROGRESS

For years, our Association has advocated for creating a national student identifier for military-connected children in public schools. While we have been pleased to see several States begin tracking military students in their classrooms, we agree with the Commission that in order to obtain reliable, consistent data this initiative should be implemented at the Federal level. A military student identifier will allow researchers and policy makers to better understand the impact of military life on academic achievement and enable them to direct resources more effectively to support military children.

Our own research has shown that experiencing the repeated, prolonged deployment of a parent can lead military children to show symptoms of stress and anxiety at higher rates than their civilian counterparts.[4] Military children are also more mobile than other students, moving an average of six to nine times between kindergarten and their senior year. There is no data on military students' attendance, graduation rates, performance on standardized tests or other commonly measured indicators of academic achievement. Creating a report-only subgroup of children who have parents or guardians serving on active duty in the seven Uniformed Services, as the Commission suggests, would fill this gap and allow policy makers to more effectively direct programs and services to support military students.

RECOMMENDATIONS WE CANNOT SUPPORT

While we support many of the Commission's recommendations, several of their proposals concern us. We cannot support the Commission's recommendation on the Survivor Benefit Plan, as it does nothing to eliminate the SBP–DIC offset for today's survivors and imposes additional costs on some of the most vulnerable military families. We believe Congress should preserve the full Post 9–11 GI Bill for military families whose servicemembers have already transferred the benefit.

Recommendation 2: Provide more options for servicemembers to protect their pay for survivors

WE NEED THE DIC OFFSET ELIMINATED FOR TODAY'S SURVIVING SPOUSES

We appreciate the Commission listening to the concerns of retirees and surviving spouses about the inequity of the Department of Veterans Affairs Dependency and Indemnity Compensation (DIC) offset to the Survivor Benefit Plan (SBP) annuity. However, we cannot support the recommendation put forth by the Commission giving retired servicemembers the option of funding the elimination of the offset by paying a higher premium.

Our Association has long believed the benefit change that will provide the most significant long-term advantage to the financial security of all surviving families would be to end the Dependency and Indemnity Compensation (DIC) offset to the Survivor Benefit Plan (SBP). Although we know there is a significant price tag associated with this change, ending this offset would correct an inequity that has existed for many years. Each payment serves a different purpose. The DIC is a special indemnity (compensation or insurance) payment paid by the VA to the survivor when the servicemember's service causes his or her death. The SBP annuity, paid by DOD, reflects the longevity of the service of the military member. It is ordinarily calculated at 55 percent of retired pay. Military retirees who elect SBP pay a portion of their retired pay to ensure their family has a guaranteed income should the retiree die. If that retiree dies due to a service-connected disability, their survivor becomes eligible for DIC.

We have concerns about the Commission's proposed changes to the SBP premium structure. It would leave the 60,000 surviving widows/widowers who currently absorb the offset in the same situation they are now—continuing to have their SBP annuity offset by their DIC payment. We need Congress to address the elimination of the offset to those who pay the premium and don't receive their complete benefit now! Only 8 percent (4,580) of SBP/DIC recipients are active duty death surviving

[4] Chandra, Anita. Views from the Homefront: The Experience of Youth and Spouses from Military Families. Rep. RAND Corporation, http://www.rand.org/pubs/technical—reports/TR913.html

spouses. Over 57,500 are the surviving spouses of retirees who have paid SBP premiums subsidized by DOD.[5]

As stated, the SBP annuity and the DIC annuity are paid for two separate purposes. The retiring servicemember chooses to ensure the financial security of his/her surviving spouse by enrolling in the Survivor Benefit Plan. There is a chance the retiree may die of a service-connected disability. We maintain the payment of the DIC is the responsibility of the VA regardless of what other insurance or annuity the survivor may be eligible for. No other survivors of Federal employees (former military members) are subject to the offset when they receive both a survivor annuity and the DIC. Surviving children receiving SBP are not subject to the offset. Since the retiree already pays a premium for SBP, why should he/she also subsidize the payment of the VA DIC annuity?

The Commission notes in its report the increased election of SBP by retired servicemembers, comparing an election rate of 52 percent in 1993 to an election rate of 79 percent in 2013. This increase is due in great part to the elimination of the Social Security offset authorized by the NDAA for Fiscal Year 2005 (Public Law 108–375) and phased in over a 3-year period ending in 2008. Increasing the SBP premium to 11.25 percent would discourage retirees from signing up for the higher coverage unless they were severely disabled and had no other options. Those with severe disabilities who have been medically retired may be least financially able to pay higher premiums even though their survivors would have the greatest stake in having the offset eliminated.

We are especially concerned the Commission did not address how the survivors of those who die on active duty would be affected if this recommendation would be enacted. Would they continue to experience the DIC offset to SBP? For many of the survivors of junior servicemembers, the DIC completely offsets the SBP annuity. We have questions where the funding would come from to fully fund both the DIC and SBP benefits for these survivors? How would the proposed changes to the retirement system figure into this?

We are encouraged at the suggestions the Commission has made on providing an analysis of the costs and benefits of the options to the retiring servicemember and their spouse. Again, it is important to have all the information to make an informed decision on retirement and survivor plans. But, we cannot support asking the retiree to fund both the unsubsidized portion of the SBP and the VA provided DIC payment on the chance he/she may die of a service-connected disability.

Recommendation 11: Safeguard education benefits for Servicemembers by reducing redundancy and ensuring the fiscal sustainability of education programs.

HONOR THE CONTRACT WITH THOSE WHO HAVE ALREADY TRANSFERRED THE BENEFIT

As anyone who has pursued higher education can attest, tuition is only a fraction of the cost of attending college. Living expenses, books and fees add significantly to students' costs. Recognizing this reality, Congress included a living stipend in the Post 9–11 GI Bill. This valuable benefit has allowed many servicemembers to complete their educations and launch careers. Other servicemembers judge the best choice for them and their families is to transfer the benefit to a dependent spouse of child. Servicemembers incur an additional service obligation with the understanding the entire benefit—to include the living stipend—will transfer to their designated recipient.

In the Commission's view, it is time to evaluate the effectiveness of transferability of the Post 9–11 GI Bill on retention and better align the benefit to meet retention goals. However, they fail to acknowledge many servicemembers have already transferred the benefit—and met their additional service obligation—but their dependents have not yet had the opportunity to use their earned GI Bill benefits. Servicemembers with young children accepted an additional service obligation with the understanding their families would have full use of the Post 9–11 GI Bill benefit. They made financial arrangements and savings plans based on those provisions. They made difficult choices and possibly passed on other opportunities to ensure their earned benefit became one their dependents could use. These servicemembers honored their part of the contract. Now we ask Congress to do the same and preserve the full Post 9–11 GI Bill for those military families who have already transferred the benefit.

It is worth noting servicemembers who transfer their Post 9–11 GI Bill benefits and fail to meet the required service obligation are required to repay the benefit. The VA recognizes in transferring the benefit the servicemember has entered into a contract and must meet the terms of the agreement. Should servicemembers ex-

[5] Department of Defense Office of the actuary . . . 09–30–14

pect any less? We acknowledge the Post 9–11 GI Bill is an exceptionally valuable benefit. In a time of fiscal constraint, Congress may have to make difficult decisions regarding its future viability. However, the contracts of those who have already earned the benefit must be honored.

RECOMMENDATIONS REQUIRING FURTHER STUDY

We believe several MCRMC recommendations have promising elements, but will require more study and further questions in order for the Commission to answer our concerns. The proposals for the new retirement system and changes in health care call for servicemembers and their families to make responsible choices that will require a robust financial training program. We wonder how DOD and the Services will accomplish this financial training for both the servicemember and his/her spouse. We also have concerns about the proposal to merge commissary and Exchange operations and about the effect this change would have on the military resale system. We will seek more information on how these proposals could be implemented and encourage Congress to do the same.

Recommendation 1: Help more servicemembers save for retirement earlier in their careers, leverage the retention power of traditional Uniformed Service retirement, and give the Services greater flexibility to retain quality people in demanding career fields.

TAKING RESPONSIBILITY FOR YOUR OWN RETIREMENT

As advocates for the entire military family community, our Association is keenly aware of the inequities inherent in the current retirement system. The majority of the families we serve remain in the military for fewer than 20 years and thus leave with little or no retirement savings. Recognizing this disparity, we support the Commission's recommendation to create an employer match to servicemember Thrift Savings Plan (TSP) accounts, which would create a valuable, transportable retirement benefit for servicemembers regardless of how long they spend in the military. At the same time, we strongly believe in the value of the defined benefit plan, both as a retention tool and as a vital element in retirees' financial well-being. We commend the Commission for creating a hybrid system that would maintain the majority of the defined benefit plan along with a defined contribution.

While we would like to support the recommendation fully, we do have concerns. The proposal shifts both risk and responsibility for retirement savings from the government to the individual servicemember. In addition, the recommendation would lead to a significant income reduction for future working-age retirees compared to the current plan. We ask Congress to consider the following issues prior to making any decision about retirement changes.

THE "BLENDED" RETIREMENT SYSTEM: QUESTIONS AND CONCERNS

- Increased responsibility for retirement while purchasing power is eroded: The value of the TSP is tied directly to the level of individual contributions. If servicemembers choose not to participate, or make smaller contributions, the value of the benefit is diminished. Currently 40 percent of servicemembers choose to participate in TSP even though DOD provides no match. While under the proposal enrollment in the plan would be automatic, servicemembers would have the choice not to participate. To their credit, the Commission paired this recommendation with a call for improvements in servicemember financial literacy programs, arguing once servicemembers understand the value of saving for retirement, especially with an employer match, there would be great incentive to participate. However, the reality is military families have experienced a series of cuts to their purchasing power in recent years, with higher out-of-pocket costs for housing and health care and pay raises that do not keep pace with inflation. TSP contributions will take another bite out of their disposable income. How many families will simply feel they cannot afford to save for retirement?
- Higher risk for servicemembers and families: We are also concerned about the risk associated with a defined contribution plan, which we feel the Commission did not adequately address. Like all market-based funds, TSP accounts carry the risk of investment losses. In addition, a high rate of inflation would effectively diminish the value of TSP savings. Under this plan, the TSP would represent a significant share of retirement savings for a person who spends 20 or more years in the military, so the proposal imposes greater risk on those who stay for a full career. If there is a downturn in the market, retirees face losing a large share of their retirement savings.

While some of that risk could be offset by a robust financial literacy program, risk is an intrinsic element of any defined contribution system.

• Reduced income for working age retirees: Our most pressing concern is the financial well-being of future working age retirees, who would face a significantly reduced income under this plan relative to the current one. According to the Commission, future retirees' pensions would be 20 percent less than provided under the current system. While the loss would be offset by the increased value of the TSP, servicemembers would not be able to begin drawing from that until they reached age 59½. How much of a burden will this reduced income place on future working-age retirees? We also wonder what will happen to the Survivor Benefit Plan under this scenario. Will prospective retirees and their spouses feel they cannot afford to participate in SBP if their retirement income is reduced? Will Survivor Benefit Plan premiums and benefits be adjusted given the smaller retirement amounts and the availability of the Thrift Savings Plan as an asset for the survivor?

As more servicemembers leave the military due to downsizing, our Association has increasingly focused on the issues families face as they transition to civilian life. In 2014, we surveyed military spouses who recently transitioned or were preparing to do so soon. What we have heard is that separating or retiring from the military is a difficult transition for many military families, often accompanied by significant financial hardship.

• "Fortunately, we have been cautious about our spending and were financially prepared to live on retired pay if necessary which proved to be true."
• "Save every penny you can. Get out of debt before you separate. Brace yourself—it is harder than you can imagine. We are out of debt and have some savings, but my husband has been job hunting for 7 months."
• "I feel after 15 years in a career, he is starting from scratch and at the bottom of the barrel in the civilian workforce. I'm scared we'll be trying to support a family on minimum wage because nobody knows how to use an 0369 (military specialty designation) in the real world"[6]

The prevailing view of the working-age retiree who moves seamlessly into civilian employment is frequently far from reality. Rather, it is not uncommon for working-age retirees to face a lengthy period of unemployment or underemployment, especially if their military skills do not translate directly into a civilian career. We are concerned that a reduced retirement annuity will add to the financial stress families commonly face during this transition.

The Commission's approach to this problem, offering servicemembers the option of a lump sum payout in exchange for a reduced retirement annuity, is not an acceptable solution for the long-term well-being of the family. While the Commission does not detail the amount of the proposed payout or the how much would be cut from the annuity, similar proposals in the past have been detrimental to servicemembers, providing much less total retirement compensation. This is especially true if the amount of the lump sum offered does not increase with inflation. Military retirees should not have to face a long-term financial disadvantage in order to address a short-term financial shortfall.

A 2014 RAND report, Toward Meaningful Military Compensation Reform, offered a proposal that would partially offset the reduced benefits for working-age retirees in the MCRMC plan. In its report, RAND suggests implementing a transition pay for servicemembers leaving after 20 or more years of service. Including a transition payment for retiring servicemembers would address two of our concerns by helping families through the financial challenges associated with transition and by offsetting some of the income lost by working-age retirees under a reduced defined benefit plan. In our view, this proposal merits further study for all transitioning servicemembers receiving an honorable discharge.

We also note that the Commission does not address medical retirees in its proposal on retirement. How would these most vulnerable military families cope with a reduced annuity?

We recognize the majority of servicemembers currently leave the service with no employer-provided retirement benefit and we commend the Commission for attempting to remedy this inequity while preserving most of the defined benefit plan. While we would prefer the annuity remain at its current level, we acknowledge that may not be feasible while also providing an employer match to the TSP. While we support the proposal in principle, we are concerned about the shift of risk and responsibility to servicemembers and their families and about the impact on the financial

[6] Source: NMFA Transition Survey, May 2014

well-being of working-age and medical retirees. We believe there are steps Congress and DOD could take to mitigate these drawbacks—such as including a transition pay for servicemembers—that would allow us to more wholeheartedly support the proposal.

Recommendation 3: Promote servicemembers' financial literacy by implementing a more robust financial and health benefit training program.

MORE TRAINING IS NECESSARY TO MAKE GOOD FINANCIAL CHOICES

We support the proposal to implement a more robust financial and health benefit training program. However, we question how some of the recommendations will truly improve financial literacy and must emphasize the importance of extending these training programs to the entire military family, particularly the spouse.

The MCRMC concluded that existing financial literacy training programs do not adequately educate servicemembers. Yet, it maintains investing money in growing existing programs, with only slight changes, would better educate servicemembers. We think it is important to note in many areas, servicemembers are already miles ahead of their civilian counterparts in financial knowledge and management practices.

According to a survey done by FINRA Investor Education Foundation in 2012, 80 percent of servicemembers believe they are good at dealing with day-to-day financial matters.[7] When compared to their civilian counterparts in age and demographic, servicemembers were more likely to have an auto loan, carry a credit card balance, have a student loan, and a mortgage, but they were also less likely to use non-bank borrowing and have unpaid medical bills. Servicemembers spent less than their income and had less difficulty covering their expenses than their civilian counterparts. They are more likely to save or have a retirement account. However, they were more likely to be underwater in their mortgage or have declared bankruptcy. These statistics bear more reflection and require adaptations in financial literacy programs that are specific to their military lifestyle challenges, like understanding the risk of investments in real estate when unable to homestead in one place.

It is absolutely critical changes in financial literacy focus on educating the entire military family. Spouses are often left in charge of the big financial decisions as they are more consistently present on the home front. Financial wellness and health care are often not executed by the servicemember. Mismanagement can result in far more devastating repercussions than a loss of security clearance: we have seen surprising use of food banks by military families; financial issues are a leading culprit in divorce and military suicide events; and unsurprisingly, morale is dropping after 14 years of war. The Commission's proposal must be considered in the light of how it can be applied to the entire family unit to best serve its purpose.

In considering improvements to financial literacy and health benefit training programs, opportunities to reach family members must embrace the lack of mandate the command and service have over family members. Dependent spouses or family members cannot be forced or tasked into education. Programs must be interesting, relevant, accessible, and innovative to reach our youngest families and entice them to participate. Provisions should be made to ensure attending or accessing good financial literacy counseling and education resources does not cost families money and can be performed at times convenient to them. We think the online budget planner is a good example of the great potential in this recommendation.

The MCRMC recommends several financial education ideas that are already in effect. For example, each Service provides financial management training to the servicemember at various stages in their career. They also provide financial counseling for servicemembers and their families through a designated staff member at every installation. However, in some locations, this person may be shared among various installations or not be committed to financial literacy as a full-time responsibility. The MCRMC's proposal for more resources dedicated to financial education could expand availability of training personnel and programs.

The MCRMC's proposal recommends:

1. Increasing the frequency of and strengthening financial literacy content
2. Enhancing financial literacy content
3. Hiring firms to provide financial literacy training
4. Messaging from leadership
5. Mandatory annual Defense Manpower Data Center (DMDC) surveys
6. Strengthening partnerships with Federal and nonprofit organizations
7. Provide an online budget planner for servicemembers

[7] http://www.usfinancialcapability.org/downloads/NFCS—2012—Report—Military—Findings.pdf, page 28.

8. Restructure the LES to reflect compensation changes proposed by the MCRMC

The Department of Defense (DOD) already provides financial counseling through Military OneSource confidential counseling number. Military OneSource counseling is also the most accessible tool currently available for spouses. DOD engages in a massive campaign called Military Saves to promote savings in cooperation with the Consumer Federation of America that includes memorandum and video messages from the Joint Chiefs and Enlisted Leaders encouraging servicemembers to pledge to save. The DOD meets quarterly with Federal and nonprofit organizations at the Defense Financial Readiness Roundtable to discuss programs and plans for reaching military families with financial literacy tools provided outside of DOD.

In 2003, DOD formally launched a financial readiness campaign to deal with financial habits that put members' readiness at risk, including financial management awareness, savings and protection against predatory practices. Since then, items 1, 2, 4, and 6 on the MCRMC list have been implemented. DMDC has surveyed servicemembers about financial issues as recently as December 2013. With only items 3, 7, and 8 as new recommendations by the Commission, we feel this proposal leaves too many specifics to chance, especially with so many other moving parts in the health care and retirement proposals.

We would be remiss if we omitted the other financial challenges faced by military families. Between 2000 and 2012, Congress approved pay raises that exceeded the statutory requirement and set the standard that the Basic Allowance for Housing (BAH) would completely cover average housing expenses at each rank. For the past 3 years, however, DOD has proposed pay raises lower than the Employment Cost Index standard required in statute. DOD has also proposed a reduction in the BAH. The cumulative effect of these changes will severely impact the purchasing power of servicemembers and their families. Financial literacy to promote financial readiness will be more important to help military families' dollars stretch further.

The MCRMC is proposing a massive overhaul of the health care system that would give servicemembers the choices they have been craving, but could also result in out-of-pocket expenses for large families or those with extensive health care needs. They are also proposing a retirement system that would ask our younger and least equipped servicemembers to carry a bigger burden in saving without giving them the extra tools to do so. According to a 2013 DMDC survey, approximately 10 percent of responding servicemembers found it difficult or very difficult to cover expenses and pay all bills.[8] These 10 percent demonstrate that there is still a target number of servicemembers who will not just benefit, but desperately need a different kind of financial management education.

We support the MCRMC's recommendation to promote better financial literacy for servicemembers' through a more robust financial and health training program and feel that it is absolutely critical for the success of their other recommendations. We must emphasize that implementation must include family members. We would also like to see more information or study on how these proposals benefit the majority of servicemembers who are already financially savvy, but challenged by other financial challenges of military service.

Recommendation 9: Protect both access to and savings at Department of Defense commissaries and Exchanges by consolidating these activities into a single defense resale organization.

THE SAVINGS ARE THE REASON WE SHOP AT THE COMMISSARY

We thank the Commission for affirming the commissary savings military families have told us they value must be protected and also affirming that DOD dollars should help to support the savings level. We also understand efficiencies can help make more solid a benefit the DOD continues to find expendable. However, we believe the implementation of the Commission's recommendation may remove many protections that sustain the existence of the commissary and exchanges. We don't believe there is enough data or context on the practical aspects of consolidation to support this proposal as written and feel it requires further study.

- Currently, commissaries sell items at cost with a 5 percent surcharge that funds infrastructure investments. Operational costs are paid with appropriations. The exchanges sell items for profit, cover most of their operational costs with those profits, and provide the remainder to support Morale, Welfare, and Recreation (MWR) programs. The MCRMC proposes a new system that combines the exchange and the commissary systems into a new Defense Resale Agency (DeRA) and forces the surcharge and profit

[8] Defense Manpower and Date Center, 2013 QuickCompass of Financial Issues, Question 73, pg. 138

margins to fully fund the operational costs of both systems. The exchanges have already been yielding smaller and smaller profit margins. How many efficiencies will be needed in a combined system to cover costs AND provide the MWR support at desired levels?

• The recommendation states "MWR programs should continue to be funded from DeRA profits." What if there is a shortfall?

• DOD currently operates three exchange systems (NEXCOM, MCX, AAFES). Previous attempts to consolidate the exchanges into a single entity have failed due to logistical challenges and Service objections. How and why will it work this time?

• More than 60 percent of the employees working at the commissary and exchanges are military affiliated. Nearly 30 percent are military spouses. We do not know how these changes would affect their status. Civilian employees at the commissary would likely be converted to Non-Appropriated Fund (NAF) status, possibly reducing their pay and forcing a change in their benefits as they switch to a new system. What logistical challenges in merging employees from two distinct pay and benefit structures must be resolved and at what cost? How will the financial security of long-time commissary employees be protected?

• Consolidation may also remove the appropriated funds that cover second destination transportation costs for shipping commissary goods overseas. The new DeRA would be responsible for generating revenue to cover operating costs and second destination transportation at a cost of more than $340 million. Again, what if they can't? What's the protection for families who depend on overseas commissaries?

It remains unclear to us what will happen if the new blended system cannot cover operating costs. What are the second- and third-order effects on families around the world for providing healthy and familiar foods and goods? How will potential reductions in MWR revenues affect the morale of our military families at home or servicemembers away from home?

As in our health care discussion, we must acknowledge that commissaries are under tremendous financial pressures and the appropriation that supports their operations—and by extension the savings military families need—is a constant target for budget-cutters. We are open to discussions on how to strengthen the resale entities in a way that protects customer savings and MWR revenues. We have concerns that restructuring the commissary and exchanges into a single entity could diminish each of these benefits. But, we hope this recommendation and the additional commissary study Congress mandated in the NDAA for Fiscal Year 2015 will provide a starting point for action on ways to strengthen the benefits and protect the military families who depend on them.

THE WAY AHEAD

The National Military Family Association commends the Commission for its thoughtful consideration of many issues important to military family quality of life, as well as its comprehensive approach to military compensation. We are intrigued by the innovative recommendations regarding health care and retirement. We hope our questions will help inform a much-needed discussion, not just about the proposals, but also about current benefits and ultimately what will be best for servicemembers and their families and the readiness of the force. We need more information on the impact of consolidating aspects of the military resale system on the savings military families experience at the commissary before embracing this recommendation. We especially thank the Commission for its recommendations regarding special needs military families, child care, nutritional support and military children in public schools. Their recommendations, if enacted, would address concerns that we often hear from military families and greatly enhance many families' well-being. While we cannot support the Commission's recommendations regarding the Survivor Benefit Plan or the Post 9–11 GI Bill, we do appreciate the efforts to preserve benefits important to servicemembers and their families.

We ask Members of Congress to consider these recommendations thoughtfully as they respond to the budgetary challenges our Nation faces. We encourage Congress and DOD to seek solutions to the many issues raised by the MCRMC report and would welcome the opportunity to share additional input from the military families we serve. We must not delay the conversation on how to provide the best for our servicemembers and the families who stand behind them! This report gives us a starting point.

Our Nation will continue to call on servicemembers to address emerging threats and sustain peace around the world. Any change to the system of military com-

pensation will have far reaching consequences and must recognize the unique challenges of military life. The government should ensure military families have the tools to remain ready and to support the readiness of their servicemembers. Compensation and benefits for servicemembers should reflect the singular service of military members and honor that service with a commensurate system of financial and medical support into retirement for them, their families and for their survivors.

STATEMENT OF VADM NORBERT R. RYAN, JR., USN (RET.), PRESIDENT AND CHIEF EXECUTIVE OFFICER, MILITARY OFFICERS ASSOCIATION OF AMERICA

Admiral RYAN. Chairman Graham, Senator Gillibrand, Senator Tillis, and Senator McCain, thank you for this opportunity on behalf of our 390,000 members.

This afternoon, I'd like to make just five brief points:

First, the Military Officers Association of America (MOAA) sincerely appreciates the work that the Commission did. These are very professional, dedicated Americans that have done quality work. The proposed change to the healthcare system is welcome. It's a welcome shot across the bow and should serve as a forcing function, I believe, for Congress to work with DOD and Secretary Carter to push through with the essential and much needed reforms necessary to optimize the system. I believe the one thing we all agree on is that the status quo is not acceptable.

Second, it's obvious that the Commission, Congress, MOAA, and my colleagues here at the table all seek the same objective: a healthcare delivery system that is far more integrated, efficient, effective, and sustainable than the current system.

Third, where MOAA respectfully differs with the Commission is, we believe the problems that TRICARE has can be addressed in a systematic manner without resorting to its elimination. MOAA has consistently stated that the largest barrier to a truly efficient and highly reliable healthcare organization is the current three-service system. In the 1980s, Congress demanded, over the strong objection of Pentagon leadership, that the Services fight wars jointly. It is now time for Congress to insist that the Services do the same thing immediately in the medical-care area. Study after study has concluded that a unified medical command that has a single budget authority over the three military systems will yield significant cost savings and efficiencies that will make the military system one we can be proud of.

Fourth, MOAA's recent electronic survey of 7,500 beneficiaries, 1,500 of which were enlisted, 400 spouses, indicates that, even with its problems—even with its problems, 8 out of 10 prefer TRICARE to a health plan similar to what Federal civilians use. If Congress contemplates moving to a healthcare plan similar to the Commission's recommendation, it needs to take the time necessary to ensure all stakeholders understand the second- and third-order effects.

Finally, MOAA believes that, out of the Commission's 15 recommendations, the two that propose dramatic changes to both military retirement compensation and military care programs could have a serious impact on career retention required in the All-Volunteer Force. Both recommendations produce a negative effect on the pocketbook of patriotic Americans for whom the government needs to serve for—needs to draw to a 20-year career.

So, it isn't necessarily as much the money, but I would like to put up a chart on this, because, Senator Graham, as you pointed out, people would sign up for this retirement benefit when they came in because, as Senator McCain has said, it would be prospective. But, what we're concerned about is the combination if we implemented a retirement system that was prospective and we also integrated that with the healthcare system that the Commission reports, the question is, would there still be a sufficient draw for those young men and women who are coming in, in the future, that they would feel it's worth going from 10 years to 20 years? We think there's considerable risk with this. All you have to do is multiply that 20 by 20 and you would see, it's about 128,000 less in benefit. So, the question is, would that be sufficient to get people to stay in for a career, let alone more than one tour?

If Congress—and because that's basically a 27-percent cut, as you see—if Congress and the administration decide to adopt these two very financially impactful recommendations from the Commission, MOAA believes the risk to the quality of the All-Volunteer Force would be significant because of—the incentive to stay for a career would be in doubt.

Again, thank you for this opportunity, and thank you all for your continued leadership.

[The prepared statement of Admiral Ryan follows:]

PREPARED STATEMENT BY THE MILITARY OFFICERS ASSOCIATION OF AMERICA

Chairman Graham and Ranking Member Gillibrand, members of the committee, on behalf of the 390,000 members of the Military Officers Association of America (MOAA), we welcome this opportunity to submit testimony for the record, regarding our views concerning the Military Compensation and Retirement Modernization Commission's (MCRMC) report and recommendations regarding military health benefits.

MOAA sincerely appreciates the hard work and detailed analysis that went into the Military Compensation and Retirement Modernization Commission's report. The commissioners and professional staff should be commended for their extensive effort. Their product provides the country with an instrument that we can use as a catalyst to begin important thoughtful discussions, analyses, and debates on vital issues that directly affect our service men and women, retirees, their families, and their ability to insure our national security. We look forward to working closely with the Congress and in particular this committee, your staff, the Pentagon, and the administration on these critical concerns and recommendations regarding military compensation, benefits and the retirement system.

The Commission and MOAA both seek the same objective. However, we urge caution concerning any major changes to the military's health care system (MHS) that could potentially have a negative impact on the military medical readiness of our medical personnel, as well as on the entire All-Volunteer Force and their families. Several of the health care proposed recommendations represent nothing short of a seismic change, and have not been modeled and studied within the complex and dynamic realities of the military health care system.

Some defense leaders and others have stated, and continue to state, that the military's health care costs absorb a disproportionate 10 percent, non-war share of the Department of Defense (DOD) budget, and that this spending trajectory must change. These assertions should be viewed in proper context in that healthcare costs comprise 23 percent of the Nation's budget; 22 percent of the average State budget; 16 percent of household discretionary spending; and are 16 percent of the U.S. gross domestic product—so a 10 percent share of DOD's budget is not too bad a deal. Additionally, not usually highlighted are the improvements to the benefit and the extended benefit coverages for Reserve and Guard components which Congress rightfully mandated during the past decade. The facts also show that DOD healthcare costs have been relatively flat over the past 3 years because of changes Congress already has put in place.

The current and future national security situation will require that we maintain a balance of investment in equipment, training, operational capabilities, as well as personnel requirements which have been the cornerstone of the success of our All-Volunteer Force. There are finite resources for these competing demands and we strongly agree that the military's health care system needs to evolve beyond what it is today, into a modern high performing integrated system, delivering quality, accessible care, safely and effectively to its beneficiaries—while simultaneously meeting international health crises and national disasters, while at the same time honing its readiness capabilities. No other health care entity in the country is charged with these dual, yet mutually inter-dependent, mandates.

Our Nation's health care industry is undergoing rapid change, and it is within this context that the military health care system finds itself at a major inflection point. It must sustain the advances and skills learned from the past 14 years of combat experience and it cannot compromise on its readiness platforms. Thus, any reforms must support the goal of sustaining an operationally ready force with a ready medical force. How to most effectively accomplish this without negatively impacting retention and readiness is the crux of the issue.

MILITARY HEALTH CARE AND THE IMPORTANCE OF THE TRICARE PROGRAM

The MCRMC recommends the TRICARE program be eliminated and replaced with a Federal Employee Health Benefits Program (FEHBP)-like substitute health plan. It is worthwhile to understand the importance of the current program that it is purported to replace.

There have been, and continue to be, many studies on the organization, coordination, and the increasing costs of the military health system, as well as its effectiveness addressing particular health challenges. Despite the stress that has been placed on the military's health system and the TRICARE program, because of war—its performance has withstood the test of time and in some ways, is stronger and more resilient now than it has ever been.

The TRICARE program was established in 1995 having evolved from the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS). Today, it provides care to over 9 million servicemembers and families, retirees, and survivors, through a range of benefits from TRICARE Young Adult to TRICARE for Life.

TRICARE, by its very nature, was designed to support military medical readiness as well as to ensure the delivery of a defined benefit. It accomplishes this by sustaining the operational capability for military treatment facilities through an augmented network of health care services provided by three managed care support contractors, who ensure the continuous delivery of the benefit.

The heart of military medical readiness is found in the direct care system, of which military treatment facilities provide the core platform for training. The provision of care in these facilities is vital to the ongoing training of physicians, nurses, corpsmen, medics, and other ancillary and administrative personnel. Managed care support contracts allow for nationwide flexibility in support of a ready deployable force. This model has proven successful but expensive, as evidenced by large budget increases for civilian purchased care.

Managing and maintaining a health care budget in excess of $50 billion a year is complicated and intricate. It is precisely because of the challenges presented in managing such a large program that the system has become somewhat, over time, both self-defeating and sub-optimal. For instance, reducing the Prime Service Areas (PSA) around the MTFs saves money in the budget, but reduces the number of beneficiaries utilizing the MTF which creates even more excess capacity. The overall result of this sub-optimization of the direct care system has directly resulted in both the increased use of purchased care in civilian networks, and a shrinking patient base.

Despite its current challenges and short-comings, MOAA believes TRICARE is not currently in a "death spiral" as some have said, and it is not broken—but there are areas that definitely need urgent focused attention and reform. The recent 2014 MHS Review identified key shortcomings and areas for improvement in the domains of access, quality, and patient safety—with some steps already underway. This past summer, MOAA's own survey on MHS access, quality and safety corroborated much of the same, especially regarding access to care issues. In short, we will not accept the status quo and we must all must continue to hold the Department accountable for aggressively correcting these areas.

TRICARE has come to a unique moment in its history, and is presented with an opportunity for a thoughtful redesign of the program. This should be done with the goals of ensuring that the TRICARE benefit remains robust and medical readiness is strengthened while keeping beneficiary care and access in the forefront.

THE MCRMC PROPOSALS

The MCRMC has advanced four over-arching proposals that represent significant changes to the MHS. We are generally in support of two of them but have significant concerns regarding the other two.

We applaud the Commission for addressing issues experienced by military families with special needs. We generally agree with the recommendations and the intent to improve support for these beneficiaries by aligning services offered under the Extended Care Health Option (ECHO program) to those of State Medicare waiver programs. We believe that Guard and Reserve families are particularly vulnerable during transitional periods and should have an extension of support. It is imperative that the benefit must include members of all seven of the uniformed services.

We also support dramatically improving collaboration between the DOD and VA and there exist some excellent examples, such as the joint DOD/VA health care facility in North Chicago. For years MOAA has advocated for legislative authority to grant the existing Joint Executive Committee additional authority and responsibility to enforce collaboration. Many of the issues impeding progress range from a common electronic medical record to joint facility and acquisition planning can be accomplished in a transparent manner. Similarly, the issue of a transitional formulary for servicemembers leaving the DOD and enrolling into the VA system should be immediately corrected.

We have significant concerns regarding the Commission's proposals to create a new Joint Readiness Command (J–10), tasked with overseeing new standards for essential medical capabilities and establishing military treatment facilities as preferred network providers within civilian communities. MOAA for years has supported the concept of a unified medical command that has a single budget authority over the three military systems. The time is right for this to come to fruition now, starting with the large multi-service market areas. A single budget authority to include human resources and infrastructure oversight and control, will yield huge cost savings and efficiencies that we can only now dream about. Throughout the years, numerous studies have recommended the consolidation of medical budget oversight and execution and this can be done while maintaining the readiness responsibilities of the Surgeons General under title 10. However, the MCRMC proposal does not include this MOAA-supported recommendation.

Associated with that recommendation, is the proposal to increase beneficiary health care choice by dismantling the current TRICARE three-option program and moving active-duty family members, retirees under age 65 and Reserve component members into a commercial premium-based insurance model, similar to the Federal Employee Health Benefit Program (FEHBP).

PROPOSAL TO ELIMINATE THE TRICARE PROGRAM AND REPLACE IT WITH A FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM-LIKE SYSTEM

Offering military families and retirees under age 65 choices in a FEHBP—like program is one of the centerpieces of the MCRMC's health care proposals. It is in response to reported access, referral, contracting, and bureaucratic problems that beneficiaries experience under TRICARE Prime. Observations made by the commission regarding many of these issues are right on the mark.

TRICARE Prime is by design an HMO model of care, costing beneficiaries less and inherently providing less choice. TRICARE Standard provides a wider range of choice and is more popular. The commission's main concerns involve issues with the TRICARE Prime; a fair question to ask is whether it takes such a radical change to address those problems.

The new FEHBP-like program, called TRICARE Choice, would offer beneficiaries an array of plan options to choose from based upon their location. MTFs would be offered as one of the providers in the plan. It is envisioned that DOD would have the authority to adjust MTF billing for civilian reimbursements and co-payments for insurers as needed to meet the MTF's readiness requirements.

Concerns

This proposal is a dramatic change in the entire philosophy of delivering military health care coverage and if it is seriously entertained, should be subject to much more scrutiny to ensure it meets beneficiary needs without changing the fundamental benefit value or leading to unintended consequences.

TRICARE is designed to support military readiness—to include military family readiness. FEHBP serves a very different purpose and does not factor in readiness. For example, how would DOD's new investment in an electronic medical record be used in a FEHBP-like benefit design?

Instead of fixing existing issues and investment in fixing these, the Commission's answer is to eliminate the entire program and have beneficiaries, particularly retirees not on Medicare, pay substantially more under the premise of receiving more "bang for their buck."

The unintended consequences to military medical readiness could be great. Using MTFs as network providers, competing for business in the civilian market was not thoroughly examined in the Commission's report—this represents an unacceptable level of risk. Especially since the MTFs exist for readiness or a unique mission. The use of TRICARE as a back-up to absorb care during periods of readiness has largely been a success—for example, during large scale deployments of medical staff on the hospital ships in both war-time and humanitarian scenarios.

The Commission also presumes the Defense Department, in working with FEHBP insurers, would be afforded the right to set provider payments and beneficiary copayments for MTFs versus other providers, and adjust those as necessary to direct patient flow to MTFs. MOAA remains dubious that a broad range of insurers would be comfortable with extending such authority to one provider, however preferred.

Military families would have to receive extensive education when selecting health plans. Overwhelming choice may be just that – overwhelming and confusing, especially in the face of the existing stressors military families face. Educating beneficiaries on their TRICARE benefits has been a challenge since the program's inception. Under the MCRMC concept, we are skeptical that DOD could effectively educate beneficiaries on an even greater array of plans.

Under FEHBP, an open season for plan changes occurs once a year. If a military family member experienced a new diagnosis or health status change, he or she may want to change plan coverages. This would be especially problematic with mental health issues. There are already shortages of mental health providers in many States with our largest military bases, regardless of network.

Premiums, copays, unique plan features, and the determination of medical necessity would vary by location and plan design. This would be a dramatic and unwelcome departure from what has been a program with a uniform benefit. Military families today can only plan as far as their next set of orders. They have come to rely on the uniform nature of the health benefit administered by TRICARE, no matter where they are stationed in the world.

For example, Applied Behavior Analysis (ABA) is a therapy increasingly sought by military families for autistic dependents on the autism spectrum. Within the FEHBP, the therapy is not a covered benefit and it is offered by only 20 plans in a handful of States.

Another area not fully addressed by the Commission is pharmacy coverage. The Commission proposes that the TRICARE pharmacy program remain unchanged. But virtually all of the FEHBP plans include different levels of pharmacy coverage, and practical experience is that the TRICARE pharmacy program is virtually unusable if other coverage exists. MOAA believes this would entrap military families between significantly higher costs for civilian coverage or extraordinary bureaucratic problems if they seek to use TRICARE pharmacy programs.

The needs of a military family today can be dramatically changed by the demands of service. Unlike the TRICARE managed care support contractors, it is not clear that commercial plans under an FEHBP-like scenario would be sensitive to or responsive to a military family's unique needs. "Ready to Serve" the title of MOAA and United Healthcare Foundation's recent survey on civilian providers, conducted by RAND and released in December 2014, shows that civilian mental health providers are not equipped with the necessary knowledge or cultural sensitivity required in the care of military and veterans populations.

Putting this major military health benefit under the administration of the Office of Personnel Management (OPM) appears to be a significant step toward treating military beneficiaries like Federal civilians for health care purposes. Military beneficiaries incur unique and extraordinary sacrifices unlike the service conditions of any civilian, and their health benefits have been intended to be significantly better than civilian programs.

MOAA's recent survey of over 7,000 respondents revealed that 4 out of 5 prefer TRICARE over an FEHBP-like system for retirees and families, and 9 out of 10 do not feel confident that OPM would be able to understand and accommodate the unique needs of military families. The respondents include active duty, active duty family members, retirees, military spouses, and survivors of all the uniformed services.

An additional concern of MOAA centers on the potential premium working-age retirees will pay. It is not clear how the commission determined premium cost shares for beneficiaries. A 20-percent premium cost share for retirees is substantially too high, regardless of any phase-in period. A cost structure this high devalues the in-

kind premiums servicemembers contributed through decades of arduous service and sacrifice acknowledged in previous cost-share settings.

The fundamental issue is that recognition of decades of service and sacrifice in uniform should be formally recognized in any cost determination. A 20 percent cost share is not far off from the 28 percent cost share for Federal civilians using FEHBP. Comparison with civilian or corporate cash fees is inappropriate. Military retirement and medical benefits are the primary offset for enduring decades of arduous service conditions. Career retirees pre-pay huge "upfront" health care premiums through 20 to 30 years or more of service and sacrifice.

PROPOSAL TO ESTABLISH A JOINT READINESS COMMAND

MOAA has long been on record in support of a joint or unified medical command to ensure interservice consistency of policy, consolidated budget authority, appropriate determinations for medical staffing, training, procurement efficiencies, and more.

Unfortunately, the creation of another layer of bureaucracy does not address the root of the MHS's problems. The largest barrier to a truly efficient and highly reliable healthcare organization is the current three service system organization. This arrangement is directly responsible for extensive costs through the duplication of technology services, medical equipment, lack of common procedures and processes, especially in the much touted multi-service market areas. Literally millions are wasted each year due to the inefficiencies of this type of structure.

An example is the military's integrated referral and management center which serves the multiple clinics and hospitals in the National Capital Area. It is charged with making specialty referrals and appointments for the geographical market area. However, they only end up making approximately 20 percent of the total appointments, due to the fact that there is no unified policy and process in appointing beneficiaries into all of the military clinics and hospitals. The hospitals and clinics still report to three different service commands under three or more different sets of orders and varying budgets. This wastes millions in missed referrals going into the private sector.

There have been measures made at integration. The creation of the Defense Health Agency is a step in the right direction and has proven it can get things done—but its budgetary successes

have mainly been borne on the backs of the beneficiaries by higher pharmacy fees, mandatory mail order and rising premiums and co-payments. The MCRMC health care proposals represent a "shot across the bow" and should serve as a catalyst for the DOD to quickly push through with these long needed structural reforms under the direction of Congress.

Concerns

This new command structure does not provide a unified budget authority, but rather, participation in the budget process with the service and others. One of the key's to an efficient joint organization is budget accountability and direct oversight.

The proposed rate setting authority charged to coerce beneficiaries into using MTFs and to induce private insurers to use the facility is risky and managerially cumbersome. Even if potential insurers would allow one provider system to exert such powers. It is unclear if this could increase the potential to put MTF needs in more direct opposition to dependent/retiree/survivor beneficiary desires.

Historically, MTFs have wanted older beneficiaries for trauma, surgical procedures and other needs, but has not had the capacity to enroll beneficiaries for routine and specialty care.

Placing a new bureaucratic structure over the existing one seems redundant, especially if it fails to address the principle problems of diffuse budget and oversight authority for DOD-wide medical programs. The functions overseeing readiness already exist in the Service Surgeons General and Joint Staff Surgeon. Service consolidation can and should take place without introducing another costly layer.

TRICARE HAS ITS FAULTS BUT CAN BE IMPROVED WITH CONGRESSIONAL LEADERSHIP

Problems in TRICARE like rising costs, barriers to access, and lack of customer service in certain areas, can be addressed in a systematic manner without resorting to its elimination. The elimination of TRICARE would be akin to "throwing out the baby with the bath water" and does not get to the root of the problems. The recent MHS Review produced a baseline starting point.

The time is ripe to institute change. The development of a new set of TRICARE contracts, set to start in 2017, is about to commence bidding. The Request for Pro-

posal (RFP) seeks industry bidders and additional input has gone out. Now would be an opportune time to institute innovative ideas from industry.

The Department of Health and Human Services' Centers for Medicare and Medicaid (CMS) have instituted reforms calling for more payments to providers that place the value of health care over volume. There needs to be more focus on value based reforms which reward innovation

and quality outcomes. DOD and TRICARE should maintain alignment with Health and Human Services and set goals to institute these same types of payment reforms into the new contracts. For example, a program to bench-mark that is already under TRICARE, the U.S. Family Health Plan, uses capitated financing to effectively manage its defined beneficiary population.

A great deal of the cost increases have come from the current fee-for-service payment structure that TRICARE uses to pay its providers as this facilitates increased use of services. DOD must recognize that it is simply not possible to maintain a traditional fee-for-service discount purchasing strategy to keep costs down and improve access for beneficiaries.

The discounted fee-for-service strategies from the past have also not been effective in creating provider networks that meet the needs of TRICARE beneficiaries in an economical and customer satisfying way. The Commission acknowledged this feedback from beneficiaries in their report.

A value-based model will require new ways of thinking and risk-sharing. Under new contracts, managed support contractors and MTFs should be incentivized to align and integrate, with risk shared by each for the success of the whole.

These payment innovations can and should be tried in a pilot program, using one or more of the enhanced multi-service markets as a testing ground. Experimenting with innovative public/private partnerships, including the VA, should be done to increase training case-mix and critical skills maintenance. This can be done now, without change to the whole system.

One area where the Commission proposal to use an FEHBP-like program could be productive is for Guard and Reserve members and their families. We have long sought to bridge the health care continuity gap between and during periods of activation. As Guard and Reserve family members are not usually subject to frequent relocations and typically prefer to keep their employer coverage, the FEHBP-like concept would be more fitting for this population, including providing these families an option for an allowance to cover their civilian employer coverage during periods of deployment.

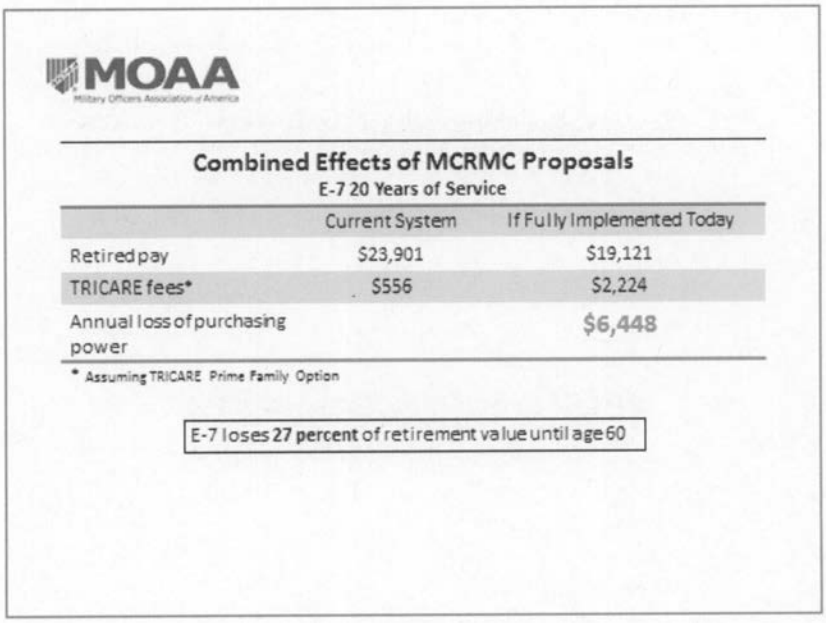
By effective rationalization of the current military health care infrastructure, great savings can be gained with resulting better quality of care for beneficiaries. It simply does not make sense to keep open facilities with minimal inpatient occupancy.

For the continuous development of the future MHS and TRICARE, DOD would benefit from frequent dialog with leaders in the health care industry. A regularly scheduled forum could be modeled after the existing Defense Health Board (DHB), focused on industry best-practices from all sectors. A forum like this could also leverage ideas from the Commission and beneficiary engagement.

Lastly, targeted investment should be made in technologies and people to support established joint processes and procedures that will generate real return on investment.

SUMMARY

The MCRMC has made 15 recommendations—2 of which propose dramatic changes to both military retirement and health care programs that could, in MOAA's opinion, seriously impact on career retention required in the All-Volunteer Force. Both recommendations produce a negative effect on the pocket book of those whom the government needs to serve for a career of 20 years or greater. For example, the combined effects of the MCRMC's health care and retirement change, if fully implemented today, on a retired E–7's annual retirement value is over $6,400 or a loss of 27 percent until they can draw from their Thrift Savings Plan at age 59½.



Therefore, a complete overhaul of a health plan and the system serving 9.6 million military retiree and family beneficiaries deserves thoughtful and careful consideration, with Congress ensuring that legislation and implementation reflects intent. Congress should take all needed time to make deliberate decisions about this proposed wholesale change, ensuring that both Congress and stakeholders understand the second- and third-order effects.

Some of the findings in the MCRMC report align with concerns raised by MOAA, and deserve to be addressed now, pending deeper consideration of the broader issues. The number one action Congress should take immediately is to demand that DOD without delay, reform under a truly unified military health care system—and not just the servicemember's share of it. Without unified budget and oversight delivery of current multi-service, multi-contractor programs, TRICARE as we know it will remain parochially administered and sub-optimized.

Servicemembers, whether in garrison, down range, or anywhere in the world, should not have to worry if they have selected the appropriate health care coverage for their families. Radical change of core retention programs always carries significant risk of unintended negative retention effects. That risk is exponentially magnified when the changes include significantly higher costs for already-stressed beneficiaries.

The key is to ensure that program changes entail real improvements, both for readiness and the beneficiaries, and avoid the kinds of changes that merely create a new set of problems for both.

STATEMENT OF THOMAS J. SNEE, NATIONAL EXECUTIVE DIRECTOR, FLEET RESERVE ASSOCIATION

Mr. SNEE. Senator Graham, Ranking Member Gillibrand, Senator Tillis, Senator McCain—Senator McCain, it's good to see you. A few years ago, we worked on the reemployment rates of our veterans a few years ago, and I'm glad that we're still producing that and keep going. So, again, I thank you—and other members of the subcommittee, my name is Tom Snee, and I'm the National Executive Director for the Fleet Reserve Association (FRA) of 60,000-plus enlisted serving in the U.S. Navy, Marine Corps, and Coast Guard.

I want to thank you today for the opportunity to express the views of our Association on the Commission's recommendations related to healthcare, a valued concern throughout. We also want to thank the Commission for reaching out to the FRA to seek our input on these complex and challenging issues during their deliberations.

Before commenting on the Commission's healthcare recommendations, FRA still notes with concern the impact of sequestration that is felt outside, not only towards national security, but to pay and allowances. Please remove DOD from sequestration.

It should be also noted, on aside, that, in the total force manning of over 75 percent enlisted mannings, that there were no representation of enlisted on the Commission staff.

Recommendation number 6 of the Military Compensation and Retirement Modernization Commission is the most wide-ranging recommendation that calls on the Congress to replace the current healthcare arrangement with a new system that provides beneficiaries with choices offered by commercial insurance companies. The Commission found that TRICARE is no longer fiscally sustainable. FRA believes that such vast and dramatic change to the healthcare benefits should require additional reviews. It is recognized that the beneficiaries would be offered a variety of cost choices in their geographic areas of medical service providers, ranging from the array of copays and premiums. The critical factor is the making of these choices as having a well-informed service and family members in the decisionmaking process of these plans. This is the cause-and-effect attribute to recommendation number 3, the need for a well-structured and reenergized financial literacy program providing an understanding of health insurance and accompanying care.

Again, recommendation number 6 calls for the realignment of costs for beneficiaries, which has a major concern with our members under the age of 65. The Association believes that, over time, this could devalue the current 20-plus-year career of military service that retirees can expect as reduction in healthcare premiums. The question we need to ask is, Are we advocating a culture of early departure over a viable career with a potential negative impact on manning requirements either through recruiting or retention models? FRA advocates that other options to make TRICARE a more cost-effective measure would be implemented before raising costs—higher costs to TRICARE beneficiaries.

It has been noted that higher costs will be ensure a better access in care response. We ask, Will this be a measured contractual guarantee of the future? FRA shares the concern about the timely access and waiting time for care. The Naval Medical Research Center has reported TRICARE benefit beneficiaries in some locations are experiencing half of the referrals for purchased care network that waited longer than the 28-day standard. Even in locations with the highest access to care, only 16 percent of referrals maintain the 28-day standard. FRA recommends a measurable pilot program in specific geographic locations currently not served by TRICARE Prime that might be a demonstration if the plan is effective in meeting the needs of the beneficiaries.

FRA supports the recommendation number 8, and strongly encourages, again, a quicker collaborative joint action between DOD

and the Department of Veteran Affairs on the joint electronic health record system to provide a seamless transition for our members once they leave DOD into the VA system.

Limited time does not permit me to go into more detail, but our written testimony does provide further details.

Mr. Chairman and the committee, I thank you very much for our opportunity to express our views. Thank you.

[The prepared statement of Mr. Snee follows:]

PREPARED STATEMENT BY THE FLEET RESERVE ASSOCIATION

THE FRA

The Fleet Reserve Association (FRA) celebrated 90 years of service last November 11, and is the oldest and largest enlisted organization serving Active Duty, Reserves, retired and veterans of the Navy, Marine Corps, and Coast Guard. FRA is congressionally chartered, recognized by the Department of Veterans Affairs (VA) as an accrediting Veteran Service Organization (VSO) for claim representation, and is entrusted to serve all veterans who seek its help. In 2007, FRA was selected for full membership on the National Veterans' Day Committee.

FRA was established in 1924 and its name was derived from the Navy's and Marine Corps program for personnel transferring to the Fleet Reserve or Fleet Marine Corps Reserve after 20 or more years of active duty, but less than 30 years for retirement purposes. During the required period of service in the Fleet Reserve, assigned personnel earn retainer pay and are subject to recall by the Navy.

FRA's mission is to act as the premier "watch dog" group in maintaining and improving the quality of life for Sea Service personnel and their families. FRA is a leading advocate on Capitol Hill for enlisted active duty, Reserve, retired and veterans of the Sea Services. The Association also sponsors a National Americanism Essay Program and other recognition and relief programs. In addition, the FRA Education Foundation oversees the Association's scholarship program that presents awards totaling nearly $123,000 to deserving students each year.

The Association is also a founding member of The Military Coalition (TMC), a 32-member consortium of military and veteran's organizations. FRA hosts most TMC meetings and members of its staff serve in a number of TMC leadership roles.

For 9 decades, dedication to its members has resulted in legislation enhancing quality of life programs for Sea Services personnel, other members of the uniformed services plus their families and survivors, while protecting their rights and privileges. CHAMPUS, (now TRICARE Standard) was an initiative of FRA, as was the Uniformed Services Survivor Benefit Plan. More recently, FRA led the way in reforming the REDUX Retirement Plan, obtaining targeted pay increases for mid-level enlisted personnel, and sea pay for junior enlisted sailors. FRA also played a leading role in advocating recently enacted predatory lending protections and absentee voting reform for servicemembers and their dependents.

FRA's motto is: "Loyalty, Protection, and Service."

CERTIFICATION OF NON-RECEIPT OF FEDERAL FUNDS

Pursuant to the requirements of House Rule XI, the Fleet Reserve Association has not received any Federal grant or contract during the current fiscal year or either of the 2 previous fiscal years.

INTRODUCTION

Mr. Chairman, FRA salutes you, the ranking member and all members of the subcommittee, and your staff for the strong and unwavering support of programs essential to Active Duty, Reserve component, and retired members of the uniformed services, their families, and survivors. The subcommittee's work has greatly enhanced support for our wounded warriors and significantly improved military pay, and other benefits and enhanced other personnel, retirement and survivor programs. This support is critical in maintaining readiness and is invaluable to our uniformed services engaged throughout the world fighting to stop terrorism generated by Islamic extremism, sustaining other operational requirements and fulfilling commitments to those who have served in the past. The Association wants to thank the Subcommittee for the opportunity to express its views on the Commission's recommendations related to health care.

BACKGROUND

The National Defense Authorization Act for Fiscal Year 2013 (H.R. 4310-P.L. 112–239) establishes the Military Compensation and Retirement Modernization Commission (MCRMC), but limits its recommendations from being a BRAC-like endorsement, as originally proposed, in its review of the current compensation and military retirement system. FRA believes it's important that this distinguished Subcommittee and its House counterpart maintain oversight over commission recommendations. While FRA supports many of the Commission's recommendations, it was noted that no enlisted personnel were appointed to serve on the Commission. More than 75 percent of the current active force is enlisted and therefore should have representation on this Commission.

The commission was instructed not to alter the current retirement system for those already serving, retired or in the process of retiring. Along with a review of military compensation, the president asked that the commission look at the "interrelationship of the military's current promotion system."

The driving-force for creating the MCRMC has been the myth that "personnel costs are eating us alive" and that personnel costs are "unsustainable."

Of historical note, in 1986 Congress passed, over the objection of then Secretary of Defense Casper Wienberger, major retirement changes, known as "Redux," that significantly reduced retirement compensation for those joining the military after 1986. FRA led efforts to repeal the act in 1999 after the military experienced retention and recruitment problems. The Association continues to monitor the take rate for personnel choosing to remain on the High-3 program, or the Redux program at 15 years of service.

The Commission believes that it can make drastic changes to pay, retirement, and other benefits and assumes it will have no impact on retention, recruitment, and readiness. Past experiences with substantial benefit changes indicate otherwise. Rhetoric about "unsustainable" personnel costs since 2000 is misleading. Improvements since 2000 to personnel programs were needed to offset pay and benefit cutbacks of the late 1980s and the 1990s that undermined retention and recruitment.

FRA wants to thank the members of the Commission and their staff for allowing FRA to have input while the report was being written. The Commission met with 97 other advocacy and visited 55 military installations, received more than 150,000 survey responses from active duty and retirees. In addition, the Commission held eight Town Hall meetings to further understand the complexity of the military compensation and retirement systems.

DEFENSE OUT OF SEQUESTRATION

Before commenting on MCRMC health care recommendations, FRA wants to note with growing concern the impact of sequestration. Budget cuts mandated by the Budget Control Act of 2011 pose a threat to national security and will substantially impact member pay and benefits. These automatic cuts, known as Sequestration, require that 50 percent come from Defense, even though Defense only makes up 17 percent of the Federal budget. These cuts were intended to be so punitive that Congress and the administration would be forced to work together to find reasonable alternatives. Unfortunately, this has not occurred and Congress along with the White House have been unable to come to a long term agreement on the budget without sequestration cuts. Unless current law is changed, the DOD will have to cut an additional $38 billion in fiscal year 2016 and some $269 billion over the following 5 fiscal years.

The DOD budget was already scheduled to be cut by $487 billion over a 10-year period before the enactment of sequestration, which will cut an additional $500 billion in the defense spending if fully implemented. The Bipartisan Budget Act of 2013 mitigated the spending cuts for fiscal year 2014 and 2015. However, the original sequestration cuts for fiscal year 2016 thru 2021 remain in effect—continuing to place national security at risk.

Secretary of Defense Chuck Hagel has warned that future sequestration budget cuts will create a "hollow force." The Services have already canceled deployment of ships, slashed flying hours, renegotiated critical procurement contracts, temporarily furloughed civilian employees, and are in the process of reducing force structure, giving America the smallest military force since before World War II. If sequestration is not ended, additional force reductions will likely go deeper and training and modernization levels will be further impacted.

The report makes 15 major recommendations intended to improve the cost-effectiveness of quality benefits for those who currently serve, have served and will serve in the future. Five of the 15 recommendations (#3, 5, 6, 7, and 8) pertain to health care and will be the main focus of this testimony.

FRA strongly supports recommendation 3 that promotes financial literacy and believes it should include educational information on health care in conjunction with recommendation 6, which will provide beneficiaries with choices offered by commercial insurance companies. Any enhanced program should also include the spouses.

The Association was in the forefront of supporting the enactment of the Military Lenders Act (MLA) in 2006 and supported the creation of the Office of Military Liaison within the Consumer Financial Protection Bureau (CFPB) when the Bureau's enabling legislation was enacted in 2010. FRA continues its work to ensure Active Duty personnel are protected from predatory lenders, and urges this subcommittee to ensure that the MLA is effectively administered. The Association applauds recent efforts by the Consumer Finance Protection Bureau (CFPB) to regulate predatory lenders through enforcement of the MLA. FRA supports a more robust Personal Financial Management (PFM) training that should include education on health insurance. Furthermore such an invigorated plan should include training for the spouse.

FRA supports recommendation 5, but is unsure if this can be effectively implemented. The intent of this recommendation is to ensure medical combat readiness. FRA supports the establishment of a Joint Medical Command to reduce duplication of services for each Service branch and ensure inter-service consistency of policy and budget oversight.

Recommendation 6 impacts current Active Duty, the Reserve component, and retirees under age 65, which calls on Congress to replace the current health care arrangement with a new system that provides beneficiaries with choices offered by commercial insurance companies. The Commission found that TRICARE is no longer fiscally sustainable. At this time FRA does not support or oppose this recommendation; but believes that such vast and dramatic change to the health care benefit requires additional review.

Beneficiaries would be switched to a plan similar to the Federal Employee Health Benefit Program (FEHBP), except that military treatment facilities would be included in the network. Like the FEHBP beneficiaries could choose from a selection of commercial insurance plans. The plan would be administered by the Office of Personnel Management (OPM) rather than the Department of Defense (DOD). Beneficiaries would be required to pay 20 percent of all health care costs. Beneficiary family members would not be covered under the plan and would be provided a Basic Allowance for Health Care (BAHC) to cover the cost of premiums and deductibles for an average health care plan. Reserve component (RC) members who are mobilized would also receive a BAHC in lieu of TRICARE coverage.

Although there are similarities between the BAHC and the base allowance for housing, the big difference between the two is that housing costs are predictable but health care costs are not.

Shifting costs to retirees under age 65 is a serious concern for FRA. The Association believes that this shift devalues 20 or more years of arduous military service that earned the retiree an offset in healthcare premiums during retirement. FRA advocates that other options to make TRICARE more cost-efficient should be implemented first as alternatives to shifting costs to TRICARE beneficiaries.

FRA is also concerned about the timely access to care. The MCRMC report notes that TRICARE Prime beneficiaries in some locations that half the referrals for purchased care network waited longer than the 28-day standard for purchased care network. Even in locations with the highest access to care, 16 percent of referrals still do not get appointments within the 28-day standard. Perhaps a pilot program in a limited geographic location not currently served by TRICARE Prime could demonstrate the efficiency of the plan.

The Association supports recommendation 7 that seeks to improve support for servicemembers with special dependents. These improvements to the Extended Care Health Option include expanded respite care hours, and consumer directed care. FRA wants to make sure that U.S. Coast Guard personnel are also covered by this program. FRA represents the Sea Services and wants to ensure that the Coast Guard benefits have parity with DOD benefits.

FRA welcomes recommendation 8 that attempts to improve collaboration between DOD and the Department of Veterans Affairs (VA). FRA supports a joint electronic health record that will help ensure a seamless transition from DOD to VA for wounded warriors, and establishment and operation of the Wounded Warriors Resource Center as a single point of contact for servicemembers, their family members,

and primary care givers. The Association is concerned about shifting of departmental oversight from the Senior Oversight Committee comprised of the DOD and VA secretaries per provisions of the National Defense Authorization Act for Fiscal Year 2009, to the more lower echelon Joint Executive Council. This change is perceived by many as diminishing the importance of improving significant challenges faced by servicemembers—particularly wounded warriors and their families—in transitioning from DOD to the VA. The recommendation to provide additional authority to the Joint Executive Committee is a step in the right direction.

Under a broader improved collaboration it should be noted that Medicare is not authorized to reimburse VA hospitals for care provided to Medicare eligible veterans. This results in veterans being forced to decide between receiving medical care through the VA, or using Medicare at a non-VA facility and foregoing the personalized care of a VA hospital. The majority of veterans pay into Medicare for most of their lives, yet the law prohibits them from benefitting from this via care at VA facilities later in life.

CONCLUSION

FRA is grateful for the opportunity to provide comments on these recommendations to this distinguished subcommittee.

STATEMENT OF MAJOR GENERAL GUS L. HARGETT, JR., ARNG (RET.), PRESIDENT, NATIONAL GUARD ASSOCIATION OF THE UNITED STATES

General HARGETT. Mr. Chairman, Senator Gillibrand, Senator Tillis, Senator McCain, thank you for the opportunity to testify today on the healthcare recommendation made by the MCRMC in their final report.

National guardsmen nationwide applaud the MCRMC for providing some innovative ideas and a real starting point to deliver a reform of the military retirement and healthcare systems. Maintaining medical readiness, including dental readiness, allows the National Guard to remain a truly operational force for the Army and Air Force.

The MCRMC recommends that changes and alternatives to TRICARE are in order, citing problems with access to care, number and location of providers, cumbersome referral and authorization process, limited provider networks, and member preferences for greater choice. All these problems exist today in the National Guard, and I can assure you, because I have been there and done that.

The MCRMC recommends giving servicemembers the option of selecting from the more than 250 Federal healthcare plans available under the Federal Employee Health Benefit Program. This program would be called TRICARE Choice. I believe that expanded choices for health insurance will be well-received by all National Guardsmen.

One of our top priorities has always been to see that every member of the National Guard and their families are able to afford healthcare. But, NGAUS remains concerned with the actual cost of these plans. Although the research work of the Commission is broad and important, that we see the actual numbers and the cost of each program and it be given to each servicemember under these 250 plans. NGAUS would recommend the subcommittee bring in actuaries to do cost-benefit analysis of each of the programs. These questions need to be answered before members and retirees of the Guard would feel secure in supporting the change in TRICARE as it now stands.

Another issue of access to healthcare benefits involves the men and women of the Guard who are military technicians. Our technician force is made up of people who run our armories, our wings, on a daily basis. They do not have the same privileges under the current law, nor were changes in access and affordability addressed by the Commission. These men and women who serve under Title 32 or Title 5 should also be able to take advantage of a new modernized healthcare program. I ask that the subcommittee examine the healthcare benefits now available to our technicians.

One access issue involves the Guard and Reserve retirees under age 60, gray area of retirees, who would continue to have access to healthcare benefits, but at full premium. This does not compare fairly to the Commission's recommendation that would allow Active Duty retirees to maintain continuity of coverage at only 20-percent premium cost-share. In all fairness, providing a premium cost subsidy to gray-area retirees to assist them in maintaining continuity of health needs to be included in the report and any legislation passed to incorporate the Commission's health access recommendation.

Any recommendation of the Commission, although not directly healthcare related, does not—although not directly healthcare related, is to the mental health and welfare of the families of the members of the Guard. This recommendation concerns military children. The Commission noted that children experience unique stress associated with parental deployments and that these stresses can adversely affect academic performance, and recommends that children of Active Duty servicemembers be identified in nationwide reporting of student performance. Although not mentioned, children of the National Guard and Reserves should be identified, and their issues addressed, and NGAUS asks the subcommittee to include them.

We support the changes to protect the viability of the total force. That cannot be done under the current system and under the constraints of sequester.

Mr. Chairman, as always, we thank you for the opportunity to testify before the Commission and stand ready to present—to assist, as required.

[The prepared statement of General Hargett follows:]

PREPARED STATEMENT BY MAJOR GENERAL GUS HARGETT, (RET.)

Senator Graham, Senator Gillibrand and other distinguished members of the subcommittee: On behalf of the entire membership of the National Guard Association of the United States, I thank you for the opportunity to testify today on the health care recommendations made by the Military Compensation and Retirement Modernization Commission in their final report.

First, I would like to go on the record and thank the Commission for its hard work. National Guardsmen nationwide applaud the Commission for providing some innovative ideas and a starting point to deliberate reform of the military's retirement and health-care systems. We believe its final report is a great way to reduce personnel costs while preserving the viability of the All-Volunteer Force.

Maintaining medical readiness, including dental readiness, allows the National Guard to be truly an operational reserve of the Army and Air Force. NGAUS supports any change in health care benefits that allow the National Guard to be ready to serve this nation at home and abroad.

The Commission recommends that changes and alternatives to TRICARE are in order citing problems with access to care, number, and location of providers, cumbersome referral and authorization process, limited provider networks and members preference for a greater choice. The Commission found that National Guard mem-

bers are faced with difficult choices during mobilization and demobilization and that these transitions can be costly for Guard families and disruptive to health care coverage, especially for servicemembers who are mobilized in support of a mission that is not a contingency operation. All these problems do exist for the National Guard. Because guardsman are not living on bases, but in their communities across the country, access to care on the current TRICARE Reserve Select program, can be extremely difficult.

Another issue with the current health insurance program looms large for the Guard. When a member of the Guard is mobilized, his/or her health insurance changes. When it changes to the limited provider network of TRICARE, a member and his/her family usually have to change doctors. Changing back and forth on insurance is very disruptive to health care coverage, usually during the time most stressful to a member and their family. Issues of timely enrollment and issues when returning to civilian health insurance challenge all activated Guardsmen and women.

As I understand it, the Commission recommends giving servicemembers the option of selecting from the more than 250 health insurance plans available under the Federal Employees Health Benefits Program (FEHBP). This program would be called TRICARE Choice. Of the 250, at least 11 plans cover every area in the country. The Department of Defense would sponsor and approve the levels of care of these commercial health insurance plans and servicemembers and their families would not be subject to the same rates as other Federal employees within FEHPB. The thought is that more physicians are available in FEHBP networks and that it is more likely Guard families' civilian job health insurance physicians are one in the same. I believe that expanded choices for health insurance will be well-received by the National Guard for these reasons.

DOD would also fund part of the Guard member's existing health insurance plan instead of requiring transition to a DOD-sponsored commercial programs. For example, Guard members who are mobilized would receive a new Basic Allowance for Health Care to apply toward a DOD plan or to cover the employees share of their existing health care plans. I believe many members of the Guard will take advantage of this option.

These recommendations should increase access and choice for the entire Reserve component, but NGAUS remains concerned with the actual costs of these FEHPB plans. Right now, not every member of the Guard can afford health care, and along with maintaining military readiness, one of our top priorities is to see every member of the Guard and their families are able to afford health insurance. Although the research work of the Commission is broad, it's important we see the actual monthly costs of the each program to a servicemember for the 250 plans that would be available under FEHBP. NGAUS would recommend the subcommittee bring in actuaries to do a cost-benefit analysis of each of the programs. Choice and the size of the provider networks should bring costs down, but these questions need to be answered before members and retirees of the Guard would feel secure in supporting the elimination of TRICARE as it now stands.

Another issue of access to health care benefits involves the men and women of the Guard who are military technicians. Our technician force is made up of the people who run our armories and wings

on a daily basis. They do not have the same privileges under current law nor were changes to their access and affordability addressed by the Commission. Although I understand the Commission could not address every situation, these men and women who serve under Title 32 or Title 5, should also be able to take advantage of a new modernized health care program and I ask that the subcommittee examine the lack of health care benefits now available to our technician force, and work with the other Committee of jurisdiction to address these vital concerns.

Another recommendation of the Commission, although not directly health care related, does relate to the mental health and welfare of the families of members of the Guard. This recommendation concerns military children. The Commission noted that children experience unique stresses associated with parental deployments, and that these stresses can adversely affect academic performance and recommends that children of Active-Duty servicemembers be identified in nationwide reporting of student performance. Although not mentioned, children of the National Guard and Reserve should also be identified and their issues addressed.

Again, I thank the members of this Subcommittee for the opportunity to provide input into what I hope will be the start of modernization of our compensation and retirement systems in the military. NGAUS supports any changes that promote the viability of the force. It's time now for all of us associated with the military to work with Congress to finish the job. NGAUS stands ready to provide the subcommittee with any help it needs.

Senator GRAHAM. Thank you all.

Senator McCain, would you like to go first?

Senator MCCAIN. No, thank you, Mr. Chairman.

Senator GRAHAM. Okay. Let's sort of get right into it, here.

Do you all agree that the 5-percent number has to change? Does anybody expect, if you kept the current system and you didn't change it at all, that we'd have to adjust premiums upward over time?

Admiral RYAN. Mr. Chairman, we work with you all to increase the premiums and then have them at a cost-of-living rate, so they're already planned to continue to go up. What we don't have a lot of visibility on is, frankly, where the 5 percent came from.

Senator GRAHAM. Okay. Well, the bottom line is, I think we need to get over that hurdle that something has to give, here, on that side. The question is—you're going to have to pay more or the system's going to collapse over time, and I want to make sure that you're getting more value for your money.

As to the provider network, it seems to me that they're been hitting—they've been hit hard, in terms of trying to keep TRICARE afloat. The only explanation I can give for the fact that there's so many less people participating in TRICARE versus these other programs is the reimbursement rate. Does that make sense?

Admiral RYAN. Mr. Chairman, one thing I would say is that we, at MOAA, certainly agree that we can't continue with the fee for service. We have to do, I think, what the Department of Health and Human Services (HHS) is doing. I think we have to do what the U.S. Family Health Plan is doing, with capitated financing or paying for the value of healthcare rather than the number or volume of procedures that you take. That has—this policy that Admiral Giambastiani talked about, that has us into this spiral that we're into. I think if DOD would come under a single unified command and go to what HHS and others are going to, with a different way of financing healthcare, paying for the quality, you would get these networks to start opening back up again.

Senator GRAHAM. Anybody want to take a shot at that?

General HARGETT. Mr. Chairman, when I was the adjutant general of Tennessee and we had the rural communities, as they were discussed earlier, that were underserved, I actually had to write letters to healthcare professionals in communities where we were not served at all, and just ask them to sign up for TRICARE. What I constantly heard from everyone is that, "We're—we just can't take the reduced benefit and see the number of people that are required under the current system."

Ms. RAEZER. Yeah, Mr. Chairman, I would agree. I think what—one of our concerns about TRICARE is, TRICARE is not fast enough to look at changes in how healthcare is financed, incentivized, where some commercial plans have had to do that. There have been things happening, as——

Senator GRAHAM. That's what General Chiarelli was saying.

Ms. RAEZER. Yes, exactly. Some of it comes down to a choice. Do you want DOD to take this task on, or do you want to look for solutions among the private sector in—that's——

Senator GRAHAM. Okay. That's the ultimate issue. Let's take a poll. Starting with you. What do you think is the best thing for the

Congress to do? Try to take the current system and do what the Admiral is talking about, or look at the private sector?

Ms. RAEZER. I think Congress needs more time to do both. What we would recommend is maybe put a hold on the next TRICARE contract procurement until you can ask questions of DOD. How—what's the best way to address some of these issues?

Senator GRAHAM. Here's my bias. If I were trying to run a healthcare company, the last people I'd pick would be the——

Ms. RAEZER. Well——

Senator GRAHAM.—DOD.

Ms. RAEZER.—I——

Senator GRAHAM. They're good at blowing things up.

Ms. RAEZER. So I think you need—there have been questions raised about—that the details in the Commission's report. So, we need more details as——

Senator GRAHAM. All right. Admiral——

Ms. RAEZER. But——

Senator GRAHAM.—what's your bias?

Admiral RYAN. I obviously have biases, but I was surprised by our polling, that, with the challenges that the plan has currently, that eight out of ten, across the spectrum, prefer to TRICARE. So, I would say Plan A ought to be: You ought to do what you did in the 1980s and tell DOD they don't have a choice, they have to go to a unified health plan——

Senator GRAHAM. I gotcha.

Admiral RYAN.—with one person. Then you could fall back on Plan B if it doesn't work. But, I think——

Senator GRAHAM. Yeah.

Admiral RYAN.—you could get the financing the way you want it, you could make it a uniform benefit, which is what Senator Gillibrand is concerned about, and we are. Some of the things, like the applied therapy for autistic children, they're not covered in FEHBP, and only about 20 of the programs in all the States——

Senator GRAHAM. Yeah.

Admiral RYAN.—even cover it. So, a uniform plan is a pretty good benefit.

Senator GRAHAM. Yeah. Okay.

Mr. Snee?

Mr. SNEE. Mr. Chairman, the Fleet Reserve, as I mentioned in my statement, of a pilot program, could probably be of the best to reevaluate over a period of time. Of course, I wouldn't come right out and say, but——

Senator GRAHAM. I gotcha.

Mr. SNEE.—maybe I'm just saying—but, one of—the other thing is, maybe combine the medical commands.

Senator GRAHAM. Yeah.

Mr. SNEE. Another thing is the—incentivize to encourage retirees to use the MTF, so there's a little bit more of that level from the—especially of——

Senator GRAHAM. That's not going to work very good under sequestration.

Mr. SNEE. Well, I understand, sir.

Senator GRAHAM. Yeah.

General?

Mr. SNEE. It's just an idea. The——

Senator GRAHAM. Yeah, I know. I know.

Mr. SNEE.—other thing is, we can send additional information in writing, sir.

Senator GRAHAM. I gotcha.

General?

General HARGETT. Mr. Chairman, I think if we continue to do the same thing with the same systems, we will get the same result. I think we have to look at change. I think it's up to this subcommittee and the Congress to figure out how to do that change. We're open to help with the change.

Senator GRAHAM. Senator Gillibrand.

Senator GILLIBRAND. Thank you, all of you, for the—your testimony. It's very helpful.

The Commission's report describes significant beneficiary dissatisfaction with the current TRICARE health benefit. So, I—it's interesting, Admiral, that you said eight out of ten preferred TRICARE, which was pretty alarming—shocking to me, actually.

So, Ms. Raezer, the National Military Family Association is an important voice for our military families. How would you describe the military family assessment of TRICARE? Did you guys do polling similar to what the Admiral did?

Ms. RAEZER. We have not surveyed the way MOAA did, but we did—have gone out to families, did a lot of gathering of input as we were working through the military health system review and to provide input to DOD for that. We could get a lot of feedback from families.

There is a—families are used to TRICARE. They will say, "I'll accept the hassle of TRICARE because of the cost." They're dealing with a lot of things, and accepting of a lot of things that they shouldn't have to accept.

Senator GILLIBRAND. So, just to follow up on that, one of the concerns we were having is that—obviously, military families move frequently, and they have limited options under TRICARE. But, at the same time, TRICARE covers a wide range of medical needs, regardless of where they move. Do you think that this new model of care will provide the same level or greater access to quality of care that exists now? Have you assessed that?

Ms. RAEZER. I think there are options, but a lot of how families will actually access is—is going to be dependent on what kind of information they get. It's a lot easier to give information on TRICARE and how it does or doesn't work in certain places. When you have more choices, families are going to need more education, "When do I pick a national plan"——

Senator GILLIBRAND. Right.

Ms. RAEZER.—"versus a local plan?" for example.

Senator GILLIBRAND. Are you concerned about how military families will be able to transfer medical records maintained by a private provider when the family is required to move to a new location? Is that something you've assessed?

Ms. RAEZER. That's already a problem. If I go to a civilian—if my TRICARE prime doc at a military hospital sends me to a civilian specialist, if I don't carry that record back to that civilian's—to that primary doctor, the—or vice versa, if I'm going from a military spe-

cialist back to a civilian primary care manager, I'm the one carrying the record. So——

Senator GILLIBRAND. So, we might have to require portable records, which is obviously a huge problem from going to——

Ms. RAEZER. Yeah.

Senator GILLIBRAND.—Active Duty to veteran service, anyway.

Admiral, in your polling, did you poll both Active Duty military families and retirees?

Admiral RYAN. Yes, Senator, we did.

Senator GILLIBRAND. Was there a difference in their assessments?

Admiral RYAN. There was a slight difference. We had—about 10 percent of the folks were Active Duty, because we're—we have 90,000 Active Duty and we have 300,000 that are in some stage of second careers or third careers.

It was interesting, of the 400 spouses that responded, they were at 85 percent, they preferred TRICARE to an FEHB program. Overall, it was 80 percent. For the Active Duty, there was a slight split. Below 35, it was about 73 percent. Above 35, it was about 78 percent that preferred TRICARE to the FEHB. So, it was fairly consistent——

Senator GILLIBRAND. Interesting.

Admiral RYAN.—across all.

Senator GILLIBRAND. Mr. Snee and General Hargett, did you have any feedback from your members?

General HARGETT. Yes, ma'am. The most people that we heard from—and bear in mind, our people are in rural communities, they don't have access to the Fort Braggs and the Fort Campbells—most of them were favorable to change——

Senator GILLIBRAND. Okay.

General HARGETT.—because of the lack of access and——

Senator GILLIBRAND. Because of the challenge with access, yeah——

General HARGETT. Yes, ma'am.

Senator GILLIBRAND.—very much so.

General HARGETT. Yes, ma'am.

Senator GILLIBRAND. I see that in New York State all the time.

General HARGETT. Yes, ma'am.

Senator GILLIBRAND. Mr. Snee?

Mr. SNEE. Yes, ma'am. We surveyed 80 percent of ours—membership, as well. As you said, it is well with—in the Tennessee area of considering the Active Duty folks is where they're going to be, especially with our recruiters and our reservists in this type of thing. But, with—they want to keep TRICARE.

Senator GILLIBRAND. One of the things that I hear a lot from our veterans is that the mental health services that are needed really aren't there, that, in fact, for a female who is suffering from post-traumatic stress disorder, she may avoid the VA, because they don't have specialists who understand her concerns or what she's going through, or various stigma associated with going through existing structures. Do—have you done any assessment if this would perhaps help, the access to mental health services, being able to go general providers, where there are specialists and expertise, and have a wider choice might benefit some of our retirees and veteran

population? But—I don't know, so I'd like to know if you've had any analysis on that.

Admiral RYAN. Senator Gillibrand, that's a great question. I was surprised. We chartered a study on mental health—civilian mental health workers and—were they culturally sensitive to the military, where they could be effective? RAND did the study for us, and we can make that available to you, but we were very surprised that the majority—I want to say close to 90 percent—did not have the cultural sensitivity to be effective in their counseling——

Senator GILLIBRAND. In the military——

Admiral RYAN.—of military families and children, as well as the veterans. That study, we did in 2014. We briefed up there on the Hill, but we haven't gotten it out as much as we want to.

Some States are more effective at helping with that. Joining forces has helped with doctors. But, overall, the RAND study was pretty dramatic in the fact that they didn't have the cultural sensitivity and awareness that they needed to be effective.

Ms. RAEZER. But, Senator, there's also an issue with just the—the network issue. We hear from too many Active Duty families who are trying to get behavioral healthcare for a child, and they've gone through the list in the—that—in the network, and continue to hear, "No, we're not taking any new patients. We're not taking TRICARE patients. No, we're long—no longer in the network." So, there are access issues right now. We think the sensitivity, there are ways to—that should be done to make that better for all providers. But, for a lot of our families, it starts with access. They can't get the care.

Senator GRAHAM. One quick question and I'll turn it over to Senator Tillis, here.

When people say they prefer TRICARE to a more commercial system, how do they know, if they've never been in it?

Senator GILLIBRAND. Yeah, that's the unknown, you're right.

Senator GRAHAM. Yeah.

So, Senator Tillis, go ahead.

Senator TILLIS. Actually, just—I was channeling my first question through the chairman.

But, because the question that I had—and it went back to maybe some of the surveys or polling, just—I'd be very interested in taking a look at the methodology and how the questions were asked, because the—it's one thing to say—first off, I was astonished by the numbers, in the 70s. I thought, generally speaking, people don't like their health plan, for just general reasons. So getting anywhere beyond the 60s would be surprising to me, in terms of the user experience. But if you look at—if you couch some of the questions—and I think—and is it—am I pronouncing it right? Ms. "Razor"?

Ms. RAEZER. Yes.

Senator TILLIS. If you couch the question by saying—if I'm in Fayetteville, and I go from having 15 providers who are willing to participate in the TRICARE plan, and 138—and I will guarantee you, knowing North Carolina relatively well, I know about the quality of the providers at the other end of the spectrum—would they potentially answer that question differently?

This is more with an eye towards the value for the money. You look at behavioral health, the number of people that may opt out of being in a provider network now simply because the reimbursement rates do not make it viable in the face of a number of other people seeking the care that may be able to be with that insurer that has a higher reimbursement rate.

So, how do we get—I mean, do you all feel like that, in spite of all that I just said there, that, generally speaking, your members are satisfied with TRICARE as it exists today?

Ms. RAEZER. I know there are military families who are very satisfied with TRICARE because they're basically healthy and they're willing, in many cases, to wait for a little bit of access in a military hospital because they're not paying anything out of pocket. But, anecdotally—and I think a good question for DOD is—how many families are switching from Prime to Standard? Why do you think—because Standard, they pay more, but they have more choice.

Senator TILLIS. Right.

Ms. RAEZER. I know a lot of our families who get frustrated in doing some of the bureaucratic goat ropes will say, "I'm going to manage my own care. I'm going to go to Standard." I think there's—families are looking at the cost. They're afraid of change. There's been so much change. There's a lot of anxiety, and so, "Well, we know what to expect with TRICARE right now, so we're not sure we want to take that leap into something different."

Senator TILLIS. I always love my insurance when I'm not using it.

But, what about the rest of the people on the panel, on the same question, about your members?

Admiral RYAN. It's a great question, and this was more than just our members. We had over 1,500 noncommissioned officers answer, 400 spouses. Some of them didn't say whether they were noncommissioned officer spouses or officer spouses. But, we got a cross-section. We were really trying to find out just how people felt. Because the way the Commission asked the question, I think, was fair, but it's—who was—who doesn't want more access? Who doesn't want it to be more timely? We know there are problems with that, as Ms. Raezer has said. So, we were surprised by the response, that, despite the challenges—and that's why we're leaning toward Plan A, demand that they go to a optimized system of one unified person in charge, where you can hold them accountable for getting a uniform plan, with better type of financing, where there's risk between the contractor and the military, and it—whether it's capitation or value, and go that way, rather than throw the baby out with the bath water.

Senator TILLIS. I was glad to hear your points on capitation strategies earlier. I agree with it.

Mr. Snee?

Mr. SNEE. Yes, sir. From the culture of change, if you will, from the dependents as to where do we go, we move from one place to another under permanent change-of-station orders. What's going to happen where we get to our next duty station? Is it going to be available? I made mention of recruiters. Of course, not to take away from my colleague here, the Major General, and the reserv-

ists, as to, okay, so where do we go from here, and where can we have the change? Are we going to have something that we know we can use? If you have that pressure put on the family, especially the spouses, as, "Okay, where do we go?" Nothing the—from North Carolina, even here in Virginia, but let's go out to Wyoming, let's go out to some of those other areas. As long as you have that MTF umbrella in those referral services outside, that's okay. But, once you get out of that, you're talking about a culture of change of "What if?"

Thank you.

Senator TILLIS. General Hargett?

General HARGETT. Yes, sir, Senator.

I'm probably one of those guys that retired from Active Duty and I didn't know what I didn't know. I used TRICARE, and I used the Fort Campbell and Fort Hood and all those places forever. So, I was actually pretty happy with it. But, once you go out and retire, you find that it's far different when you start looking at access.

As a matter of fact, I'll follow onto what she said—when I retired, and I started figuring out my access, I actually went to MOAA and bought a supplement, where I could switch over to Standard and paid, what, I don't know, Norb, $130 every quarter to be able to have access to a larger network. So I think sometimes that we kind of get caught into what is it we're used to, what we're comfortable with. When you asked the question about change, people fear change.

Senator TILLIS. Mr. Chairman, if I may, just one thing.

I would like to underscore what Senator Gillibrand said about medical information, chart data. We did a lot of work in North Carolina trying to make sure comprehensive information follows the patient. That's one of the dangers. If you have an expanded provider network, and you don't have that transportability of information, you may have a more qualified provider, but they're acting on less information. I think that's a very important part.

The other thing related to support for spouses. I think one of the panelists mentioned just one of the treatments on autism. If we're talking about—this is something that we actually took action on as I was Speaker in North Carolina—when you're talking about the impact that that has on the family, particularly of deployed personnel, it's not only transformational for the child that may be in the program, but for that parent who's taking care of the family while their loved one's deployed. I think that's an area that we need to look at, as well.

Ms. RAEZER. I would agree, Senator. I think that's where the Commission's recommendation to make sure that the plans are addressing the unique needs of military families, that's so important, and looking at things that TRICARE has—DOD has already deemed as essential, with your help, like the ABA therapy, they need to be included in these plans as requirements. We need to look at things like mobility and how to help families as they move. So—but, that, we believe, is doable, with a conversation. We all have our lists of what happens. Right now, things are falling through the cracks, in some cases. So, this is an opportunity to talk about how to make things better.

Senator GRAHAM. Go ahead, Senator Gillibrand.

Senator GILLIBRAND. Yeah.

Following along this concern, I think one thing we can work on, to whatever end we have, a—minimum requirements. I mean, part of the debate on healthcare reform was the fact that it would be great if you could go to any State at any time and have hundreds of plans at your fingertips, that you could buy whatever you wanted. But, the reason why that was a debatable issue is because some States had minimum standards. So, New York State, for example, said, "You have to cover mammograms. You cannot not cover mammograms, because we know that if you don't have any money, you're not going to spend that 20 bucks, you're saying to say, 'I'm going to risk it another year. I can wait another year. I don't have that 20 bucks right now.'" Because that was the copay for a mammogram in that fact pattern.

So, maybe one thing we should work on is, What are the minimum standards for the marketplace that we would have? Because obviously you're going to have a lot of new customers. If we do something like this, you have an enormous number of new potential customers, so we say, to be eligible to get these customers, you have to have minimal standards. Maybe that creates a marketplace. I don't know. But, to the extent you can think through that, or if you have thoughts on that, please advise us. But, I'm going to ask the panel to perhaps brief that issue—the Commission.

Senator GRAHAM. That's actually a—here's the big dilemma. One, we have to do something with the current system, because it's just unsustainable. Admiral Ryan, we've been wrestling this alligator 4 or 5 years. I just have lost, sort of, faith that we can take the current construct, the single-payer system that you're envisioning, and make it as efficient as a competitive model. But, having said that, the minimum standards is probably a good idea to look at. You just don't want to have too much so that it loses the whole advantage of being able to get more people to participate.

So—and here's the honest answer. It seems to me that the person who's going to pay the most is the retiree, no matter what you do. The family members are pretty well held harmless with the new system, maybe a little more out of pocket. The National Guard guys may pay some more, but they're definitely going to get a bigger choice. It's the retiree that we need to really watch, here, and be fair to.

So, you have reservists who live in rural areas that feel like they would benefit from choice. You have families that are accompanying Active Duty members that we want to take care of for recruitment purposes. So, I think probably the more choice, the better, for them. Then you have the retiree population, who has done their service to the country, and you want to be fair to them. You have a unsustainable system as it exists today.

So, what I want to do is—this pilot project? I don't really know what the right answer is, other than: Change is coming. I just really appreciate the input that you've given us.

Admiral, I promise you, whatever we do, we will listen to what you have to say. Probably going to come out differently, at least I will, on the idea of a single-payer system, but I want to make sure that any cost increased borne by the retiree community is something I can look them in the eye and say, "That's justified, and

you're getting more for your money." If I can't do that, I won't do it. Because I am going to ask people to pay a little bit more. There's just no way around that. If I can't say, "You're getting something better for your money," I'm not going to do it. It's not about just saving money, it's about improving quality of healthcare.

Thank you all. To be continued.

[Whereupon, at 4:28 p.m., the subcommittee adjourned.]

[Questions for the record with answers supplied follow:]

QUESTIONS SUBMITTED BY SENATOR KIRSTEN E. GILLIBRAND

HEALTHCARE

1. Senator GILLIBRAND. Commissioners, the commission has recommended the Department of Defense (DOD) implement a system similar to the healthcare benefits available to civilian employees. Often the services available in those plans may differ greatly from location to location. Military families move every 2 to 3 years on average. How does the commission account for the availability of care in different locations under the different plans?

Mr. MALDON. For Active component (AC) members, their ability to obtain care, regardless of duty station, would improve under TRICARE Choice. First, TRICARE's low reimbursement rates cause less participation among providers. This situation can be aggravated in higher-cost markets where TRICARE reimbursement rates are particularly uncompetitive, deterring provider participation. Health care markets, including their supply of doctors and the rates for procedures, vary substantially by geographic location. Commercial health insurance carriers specialize in organizing networks and delivering health care suited to local markets. A selection of commercial insurance plans under TRICARE Choice is more likely than TRICARE to reflect the conditions of the local health care market, including a network that best incorporates available doctors. AC family members getting care at Military Treatment Facilities (MTFs) can experience a loss of continuity of care mainly because of unavailability of appointments with the same primary care provider. Under TRICARE Choice, the insurance plan would be required to build a robust network of civilian providers allowing the beneficiaries to choose a provider who has availability and can provide continuous care.

Continuity of care for Reserve component (RC) members would improve as well under the TRICARE Choice system. RC members and their families face a lack of continuity of care when RC members transition to and from active duty and are moved on and off of TRICARE. This situation is particularly difficult when the servicemember is activated and if the family's existing health care providers do not accept TRICARE. When the RC member is not supporting a contingency operation during activation, TRICARE coverage ends abruptly upon demobilization, resulting in a break in coverage until coverage can resume under the civilian health insurance plan. Under TRICARE Choice, when the RC member is mobilized, the RC families would have the choice to retain their existing (civilian) health insurance or move to a TRICARE Choice plan. In either scenario continuity of care is improved. It is more likely the RC families' current physicians would participate in TRICARE Choice plans with traditional commercial insurance networks than the current TRICARE network.

Within TRICARE Choice, national plans would be offered; therefore, military families that choose national plans would not have to change plans, which would facilitate having the same level of health care when moving within the United States. Additionally, the Commission's proposed legislation would mandate that health benefit plans under TRICARE Choice include the health care benefits provided under TRICARE and Federal Employee Health Benefit Program (FEHBP) currently, as well as the essential health benefits established under the Patient Protection and Affordable Care Act. The national plans and inclusion of standard benefits will ensure like coverage in all locations.

2. Senator GILLIBRAND. Commissioners, do you recommend a required standard of care that will be available under all plans?

Mr. MALDON. Under the Commission's recommendation, a selection of plans would be offered that broadly represents what is available in the commercial market without unnecessary restrictions, meets or exceeds a baseline of health plan quality, and continuously advances with the health care industry. Specifically, the Commission's proposed legislation includes that all health benefits plans under TRICARE Choice

meet a baseline of quality measured in criteria such as an ample number of health care providers, ease of access to services, and inclusion of the latest medical treatments and technologies The Commission's proposed legislation would mandate that health benefit plans under TRICARE Choice include the health care benefits provided under TRICARE and FEHBP currently, as well as the essential health benefits established under the Patient Protection and Affordable Care Act. The recommendation further states that the Office of Personnel Management (OPM) would administer the health care program. OPM would be able to leverage its experience in managing the FEHBP, and other large-scale health benefits programs, to achieve the best health care benefits with the greatest amount of flexibility possible. OPM has established criteria for deeming health plans acceptable for FEHBP, and would have similar standards for evaluating plans for inclusion in TRICARE Choice. Additionally, DOD would be required to submit recommendations and data to OPM to ensure the program meets the unique needs of the DOD beneficiary population.

3. Senator GILLIBRAND. Commissioners, will it be more or less difficult for these family members to receive continuous healthcare as they move from duty station to duty station with inconsistent civilian healthcare services available at different locations?

Mr. MALDON. For Active component (AC) members, their ability to obtain care, regardless of duty station, would improve under TRICARE Choice. First, TRICARE's low reimbursement rates cause less participation among providers. This situation can be aggravated in higher-cost markets where TRICARE reimbursement rates are particularly uncompetitive, deterring provider participation. Health care markets, including their supply of doctors and the rates for procedures, vary substantially by geographic location. Commercial health insurance carriers specialize in organizing networks and delivering health care suited to local markets. A selection of commercial insurance plans under TRICARE Choice is more likely than TRICARE to reflect the conditions of the local health care market, including a network that best incorporates available doctors. AC family members getting care at MTFs can experience a loss of continuity of care mainly because of unavailability of appointments with the same primary care provider. Under TRICARE Choice, the insurance plan would be required to build a robust network of civilian providers allowing the beneficiaries to choose a provider who has availability and can provide continuous care.

Continuity of care for Reserve component (RC) members would improve as well under the TRICARE Choice system. RC members and their families face a lack of continuity of care when RC members transition to and from active duty and are moved on and off of TRICARE. This situation is particularly difficult when the servicemember is activated and if the family's existing health care providers do not accept TRICARE. When the RC member is not supporting a contingency operation during activation, TRICARE coverage ends abruptly upon demobilization, resulting in a break in coverage until coverage can resume under the civilian health insurance plan. Under TRICARE Choice, when the RC member is mobilized, the RC families would have the choice to retain their existing (civilian) health insurance or move to a TRICARE Choice plan. In either scenario continuity of care is improved. It is more likely the RC families' current physicians would participate in TRICARE Choice plans with traditional commercial insurance networks than the current TRICARE network.

Within TRICARE Choice, national plans would be offered; therefore, military families that choose national plans would not have to change plans, which would facilitate having the same level of health care when moving within the United States. Additionally, the Commission's proposed legislation would mandate that health benefit plans under TRICARE Choice include the health care benefits provided under TRICARE and FEHBP currently, as well as the essential health benefits established under the Patient Protection and Affordable Care Act. The national plans and inclusion of standard benefits will ensure like coverage in all locations.

4. Senator GILLIBRAND. Commissioners, how can the military provide continuity of care for military family members who choose to receive their healthcare using a commercial insurance plan? Will their medical records now be maintained by their commercial healthcare provider and not by the military?

Mr. MALDON. Under TRICARE Standard and Extra, military family members elect to receive all of their health care from civilian health care providers, and their medical records are maintained by the health care provider of their choice. Under TRICARE Choice, continuity of care would come, in part, from providing beneficiaries with the opportunity to select from among civilian providers who are tied to the communities they serve, and therefore, are less likely to move and leave the

network. Beneficiaries' medical records would be maintained by the providers, and because of electronic medical records and electronic health care records requirements under the Patient Protection and Affordable Care Act, records could be shared among providers in different geographic areas (as appropriate, subject to the Health Insurance Portability and Accountability Act requirements). As it is today, obtaining documentation from private healthcare providers and providing documentation for military health records update, if needed, is ultimately the military family members' responsibility.

5. Senator GILLIBRAND. Commissioners, if family members elect not to receive their healthcare in military facilities, and their health records are maintained by their private healthcare providers, how will the military conduct medical screenings necessary to ensure that appropriate medical services are available at new duty stations, particularly overseas locations, as is currently done pursuant to the Exceptional Family Member Program?

Mr. MALDON. Under TRICARE Standard and Extra military family members can elect to receive all of their health care from civilian health care providers, and their chosen health care provider maintains their medical records. Obtaining documentation from private healthcare providers and providing documentation for military health records updates is ultimately the military family members' responsibility. Any screening necessary, but not previously conducted, can be accomplished either at a Military Treatment Facility or by a private health care provider.

6. Senator GILLIBRAND. Commissioners, the commission recommends a Basic Allowance for Health Care (BAHC) to help Active-Duty military families pay the cost of TRICARE Choice. As we know, medical expenses are typically not spread out evenly throughout the year, and in many instances are not predictable. This is particularly significant for junior enlisted military personnel at the lower end of the pay scale. How will the BAHC be disbursed to military families to meet unexpected medical costs?

Mr. MALDON. The portion of the BAHC used to pay the insurance plan premium for Active component families would appear as an allotment on the servicemember's Leave and Earnings Statement. This portion of BAHC would be paid directly into the OPM trust fund for payment to the insurance plan selected. If the servicemember indicates a non-TRICARE Choice plan in the Defense Enrollment Eligibility Reporting System, the Defense Finance and Accounting Services would make payment directly to that insurance carrier. The portion of the BAHC to be used for active duty families' out-of-pocket costs (copayments, coinsurance, and deductibles) would be paid to active-duty servicemembers as a cash payment in their direct deposit.

To help servicemembers plan for unexpected medical costs, health care issues would be addressed in financial literacy training sessions provided for in the Commission's recommendations. In cases when a family member experiences extraordinary medical expenses due to catastrophic or chronic health care needs, a fund would be available to address the gap between BAHC and the catastrophic cap for the beneficiaries' insurance plan.

MILITARY TREATMENT FACILITIES

7. Senator GILLIBRAND. Commissioners, the commission recommends further downsizing the capacity of MTF; how do you foresee dealing with MTFs in more remote areas and would those be at risk under the commission's proposal?

Mr. MALDON. The Commission supports strengthening MTFs. The Commission did not recommend downsizing the capacity of or closing MTFs, rather it recommended reorienting them to focus on training military medical personnel for the readiness mission. The Commission has in fact recommended changes that would increase the viability of MTFs. For example, the Commission proposed eliminating MTF catchment areas to allow beneficiaries who currently live outside catchment areas to seek health care at MTFs, incentivizing beneficiaries to use MTFs through lower copayments than civilian providers, encouraging insurance carriers to send workload to MTFs by offering lower reimbursement rates for medical procedures, and providing MTFs the authority to treat veterans and civilians with cases that are needed for Essential Medical Capability skill maintenance.

8. Senator GILLIBRAND. Commissioners, the commission recommends opening MTFs to people who do not get their care through DOD as needed to meet trauma, surgical and other professional requirements for the health providers. What impact

do you foresee this recommendation having on servicemembers and their families as they seek care at the MTFs?

Mr. MALDON. The Commission recommended opening MTFs to veterans and civilians with the case mix needed to meet Essential Medical Capabilities (EMC) and not for all care. This change was recommended to strengthen the MTFs as training platforms, while preserving the access of beneficiary groups to the MTFs. The Code of Federal Regulations (CFR) currently specifies the priority level assigned to categories of DOD beneficiaries with space-available access to MTFs. Veterans and civilians would be added to the groups within the CFR at a level below the existing priority groups. Veterans and civilians seeking medical treatment of the same type as DOD beneficiaries would not displace DOD beneficiaries in the existing priority groups. In the cases that involve EMC-related medical procedures, EMCs would be included as a factor in the prioritization. Servicemembers or their family members with EMC-related cases would have priority over veterans who will, in turn, have priority over civilians.

TRICARE AND MEDICAID AND ECHO

9. Senator GILLIBRAND. Commissioners, the commission correctly noted that military families who are eligible for Medicaid services have to reapply for Medicaid benefits every time they move to a new State, and many encounter waiting lists that are longer than their assignments. To address this, the commission recommended that the ECHO benefit be expanded to provide benefits similar to the Medicaid benefit. Will the expanded ECHO benefit vary by State so that it matches the individual State's Medicaid benefit, or would it be a standard benefit for all military families?

Mr. MALDON. The Commission recommends a consistent set of expanded Extended Care Health Option (ECHO) services regardless of duty station. Because Medicaid waiver services are determined at a State level and can vary from State to State, this means that the services offered through ECHO will not exactly match the services offered in every State. The proposed implementation plan includes an analysis of Medicaid waiver services across all States to identify the common services to be added to ECHO.

10. Senator GILLIBRAND. Commissioners, would ECHO continue to provide this benefit once the military family satisfies the waiting list requirements? Will the military families be able to choose Medicaid or ECHO or could they receive benefits from both?

Mr. MALDON. Under the Commission's recommendation for the ECHO program, military families may continue to receive ECHO benefits even after they satisfy waiting list requirements for State Medicaid waiver services, just as they can today. In addition, because the Secretary of Defense has determined that services through Medicaid are not considered available and adequate for the purpose of ECHO, military families may receive benefits from both programs simultaneously.

DEPARTMENT OF VETERANS AFFAIRS COLLABORATION

11. Senator GILLIBRAND. Commissioners, if the Reserves are transitioned to TRICARE Choice, then how will DOD/VA interface with private providers to make sure military records are up to date and accurate?

Mr. MALDON. Military records are the servicemembers' and their Personnel Commands' combined responsibility. Currently, servicemembers go through their command's personnel office to update their records and periodically review them for accuracy.

Obtaining documentation from private health care providers and providing documentation for military health records update, similarly, is ultimately the servicemembers' responsibility. DOD and VA interface with civilian providers today for updating medical information in military health records, and there would be no difference under TRICARE Choice.

The Commission recommended that the DOD and the VA electronic health records meet the national standards for electronic health records. The Commission also recommended that DOD require the private providers in TRICARE Choice network to adhere to the national standards. Assuming such compliance, exchanging electronic health information would be seamless.